

Deceptive Advertising in the North Carolina Education Lottery

By: Representative Paul Stam

Speaker Pro Tem

March 10, 2016

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➤ **Deception in the NC Education Lottery**

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 - 8 pages previously presented to members of the Lottery Oversight Committee on February 11, 2016, featuring Powerball and its advertisements.
- Memo by the Fiscal Research Division addressing the Powerball jackpot of January 2016.
- Memorandum from Rep. Stam on October 24, 2014, “*New Lottery Ad is Extremely Misleading: “All or Nothing.”*”
 - Exhibits of the “*All or Nothing*” logo and advertisements
- “What is N.C. after? Bucks, bucks, bucks!” Charlotte Observer, May 27, 2011
- Advertisement revealing the top prize of \$200,000 with the odds of winning at 1 in 3.9.
- Letter to Senators Brown, Harrington, Hunt and B. Jackson on July 14, 2014 concerning SB 744/Lottery Advertising Component
 - Specifically responding to statements from the transcript of the Senate hearing on June 12, 2014.
 - Transcript of the Senate Appropriations Committee Meeting on the Lottery on June 12, 2014.

➤ **Lottery Studies**

- *Selling Hope* State Lotteries in America, by Charles Clotfelter & Philip Cook
- *Do Lotteries Hurt the Poor? Well, Yes and No* By: Charles Clotfelter
- Transcription of the National Gambling Impact Study Commission Meeting, March 19, 1999.
- Duke Professors’ contact information

➤ **Honest Lottery Act**

- House Bill 156 (Second Edition) and Fiscal Note

➤ Internal Memoranda

- Memorandum from Dylan Finch (Legislative Intern) to Representative Paul Stam on December 3, 2013 concerning “An examination of Lottery Funding and Sales for Six Counties in North Carolina.”
- Memorandum from Brian Miller (Legislative Intern) to Representative Paul Stam on February 24, 2016 “Lottery Corruption” concerning Eddie Tipton.
- Memorandum from Brian Miller (Legislative Intern) to Representative Paul Stam on February 24, 2016 concerning “NC Lottery: A Case of Subtle but Sure Injustice”- **picking a winner before paying for the ticket.**
 - *Attached Report:* Investigation by NCEL

§ 18C-114. Powers and duties of the Commission.

- (a) The Commission shall have the following powers and duties:
 - (1) To specify the types of lottery games and gaming technology to be used in the Lottery.
 - (2) **To prescribe the nature of lottery advertising which shall comply with the following:**
 - a. **All advertising shall include resources for responsible gaming information.**
 - b. **No advertising may intentionally target specific groups or economic classes.**
 - c. **No advertising may be misleading, deceptive, or present any lottery game as a means of relieving any person's financial or personal difficulties.**

- d. No advertising may have the primary purpose of inducing persons to participate in the Lottery.**
- (3) To specify the number and value of prizes for winning tickets or shares in lottery games, including cash prizes, merchandise prizes, prizes consisting of deferred payments or annuities, and prizes of tickets or shares in the same lottery game or other lottery games.
 - (4) To specify the rules of lottery games and the method for determining winners of lottery games.
 - (5) To specify the retail sales price for tickets or shares for lottery games.

8 Little Rules The House Had to Break to Pass a Lottery

By: Paul Stam, *Representative of the 37th District*

November 9, 2005

- 1. Constitutional Requirement that third reading be on a different day - Article II, Section 23
- 2. Constitutional Requirement that on third reading the "yeas" and "nays" be entered on the journal. Article II, Section 23.
- 3. Refusal to recognize members under Rule 24(a), who want to call for yeas and noes to be entered on the journal as provided in the Constitution Article II, Section 19.
- 4. House Rules require third reading on a different day - Rule 41(b) unless 2/3 agree to vote twice on the same day.
- 5. Inclusion in conference report of material not in either house or senate version - Rule 44(b) (e.g. the school construction proceeds distribution formula which is grossly prejudicial to Wake County and 40 other counties)
- 6. Refusal to recognize points of order, Rule 21(c)
- 7. Rule 26.1 and 26.A Select Committee to reflect the partisan membership of the House (63-57). This Lottery Select Committee was 12-4 Democrat and 15-1 pro lottery.

8. Closing debate without a vote of the House - Rule 19(a) provides that "only" certain members may call for end of debate and it requires a majority vote of the House to implement.
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Constitution Article II, Section 19: Record votes - Upon motion made in either house and seconded by one fifth of the members present, the yeas and nays upon any question shall be taken and entered upon the journal.

Constitution Article II, Section 23: Revenue Bills - No law shall be enacted to raise money on the credit of the State, or to pledge the faith of the State directly or indirectly for the payment of any debt, or to impose any tax upon the people of the State, or to allow the counties, cities, or towns to do so, unless the bill for the purpose shall have been read three several times in each house of the General Assembly and passed three several readings, which readings shall have been on three different days, and shall have been agreed to by each house respectively, and unless the yeas and nays on the second and third readings of the bill shall have been entered on the journal. (Because the lottery states that its purpose is to "generate funds" and subjects prizes to the income tax, and because its proponents think this will be about \$400 million/year, Supreme Court precedent is that it is subject to this section.)

Rule 19(a): Previous Question (a) The previous question may be called only by: (1) The Chair of the Committee on Rules, Calendar, and Operations of the House; (2) The member submitting the report on the bill or other matter under consideration; (3) The member introducing the bill or other matter under consideration; (4) The member in charge of the measure, who shall be designated by the chair of the standing committee or permanent subcommittee reporting the same to the House at the time the bill or other matter under consideration is reported to the House or taken up for consideration; (b) The previous question shall be as follows: "Call for the previous question having been made, is the call sustained?" When the call for the previous question has been decided in the affirmative by a majority vote of the House, the question is on the passage of the bill, resolution, or other matter under consideration.

Rule 21(c): Voice, Votes; Stating Questions (c) No statement, explanation, debate, motion, parliamentary inquiry, or point of order shall be allowed once the voice vote has begun. Any point of order or parliamentary inquiry may be raised, however, after the completion of the vote.

Rule 24 (a): Roll Call Vote (a) Before a question is put, any member may call for the yeas and nays. If the call is sustained by one-fifth of the members present, the question shall be decided by the yeas and nays upon a roll call vote.

Rule 26(c): Standing Committees and Permanent Subcommittees generally (b) The Speaker shall appoint the members of all standing committees having no permanent subcommittees at the beginning of the first regular session in a manner to reflect the partisan membership of the House.

Rule 26.1: Mentions of Standing Committee Includes Select Committee. - Any reference in these rules to standing committees shall extend to select committees unless the context requires otherwise.

Rule 41(b): Reading of Bills (c) No bill shall be read more than once on the same day without the concurrence of two-thirds of the members present and voting; provided, no bill governed by Article II, Section 23 of the North Carolina Constitution or described in Rule 20(a)(2) herein shall be read twice on one day under any circumstance.

Rule 44(b): Conference Standing Committees (b) Only such matters as are in difference between the two houses shall be considered by the conferees, and the conference report shall deal only with such matters.

Representative Paul Stam
P.O. Box 1600
Apex, NC 27502

Deception and the NC Lottery

News Media Perpetuates the Commission's Exaggeration of Lottery Prizes

Rep. Paul Stam & Rep. Jon Hardister

February 11, 2016

Imagine a young man with **\$10,000** in his pocket. He wants to invest it in an annuity. If he purchased it for a single premium today at 5%¹ interest rate, while withdrawing investment over time, he could choose from among the following options:

For 10-years: Receive \$1,321 per year; Total: **\$13,206**

For 20-years: Receive \$868 per year; Total: **\$17,360**

For 40-years: Receive \$793 per year; Total: **\$31,710**

But no matter which annuity option he chooses, it still only costs and is worth \$10,000. The value of the annuity has not changed, but the payout has. Would anyone think that he had tripled his money if he chose to receive it over 40 years?

In January, there was a Powerball jackpot drawing that significantly exceeded any lottery jackpot seen before in the United States. By the time of the drawing on January 13th, Powerball, the NC "Education" Lottery, and many news and media outlets advertised the estimated grand prize at \$1.6 billion. However, the actual winnings for the prizes taken were \$983 million.

¹ Rate may likely be lower than this value; 5% is used for illustrative purposes.

The NC “Education” Lottery *advertised* the jackpot at **\$1.6 billion**, with an estimated cash value at **\$983 million** if taken as a lump sum. But only the lump sum figure is the value against which probabilities should be computed. The *advertised* value of winnings greatly exaggerates the prize. It could just as well be advertised as a “Trillion Dollar Jackpot” with the option of taking the money over 1000 years for the winner’s heirs. That would really get sales moving! But the prize would still only be worth the lump sum. For the recent jackpot, if Powerball had decided to provide the option of a 100 year annuity, they would have reported the jackpot as \$3.04 billion instead of \$1.6 billion.

The nominal “jackpot” value is both an inflation of the prize value and irrelevant to the calculation of the odds of winning.

News outlets perpetuated this misinformation using headlines or statements in articles referring to the “\$1.6 billion jackpot”. But there were never more than 983 million jacks in the pot. The operators of Powerball and the NC Lottery understand that the greater the advertised jackpot, the more people will be enticed to purchase tickets. The news media understands that a larger advertised prize will bring more readers, and thus more advertising revenue.

The sad reality is that this sort of advertisement amounts to intentional deception. The individuals and families of North Carolina suffer from it.

All the billboard advertisements only used the exaggerated prize value.

Here are local news sources that only advertised the nonexistent jackpot:

WRAL (Raleigh): “NC pool players match 4 of 5 numbers in Powerball”, January 11, 2016. [[Link](#)]

ABC 11 (Raleigh): “Powerball Prize up to \$1.5 BILLION, could grow”, January 14, 2016. [[Link](#)]

WLOS 13 (Asheville): “The Pros and Cons of Powerball Pools”, January 12, 2016. [[Link](#)]

The Fayetteville Observer: ‘Bill Kirby Jr.: Powerball tickets “selling like hot cakes”’, January 13, 2016. [[Link](#)]

News & Observer (Raleigh): “Celia Rivenbark: The power of winning the Powerball is wasted on some”, January 28, 2016 [[Link](#)]

Some news sources did clarify what the prize value would be if taken as a lump sum, but only after they first advertised the exaggerated prize of \$1.6 billion:

News & Observer (Raleigh): “Powerball frenzy may bring windfall, but not for NC teachers”, January 12, 2016. [[Link](#)]
(Shared article with *Charlotte Observer*).

WNCT (Greenville): “Winning numbers for the largest Powerball jackpot”, January 13, 2016. [[Link](#)]

FOX 8 (High Point): “Powerball: 8 things you need to know”, January 13, 2016. [[Link](#)]

WCNC (Charlotte): “And the winning \$1.5B Powerball numbers are...” January 13, 2016. [[Link](#)]

Here are news sources around the US that perpetuated the misinformation described above:

Associated Press (Nashville, TN): “Tennessee Man Won Third of \$1.6 Billion Powerball”, January 15, 2016.
(Republished by The News & Observer on January 16, 2016). [[Link](#)]

NBC News: “Powerball Jackpot: Winning Tickets in \$1.5 Billion Lottery Sold in Calif., Fla., Tenn.”, January 14, 2016. [\[Link\]](#)

Chicago Tribune: “Who are the 3 winners of the \$1.6 billion Powerball jackpot?”, January 14, 2016. [\[Link\]](#)

Fox News (Associated Press): “Winning tickets for record \$1.6B Powerball jackpot sold in three states”, January 14, 2016. [\[Link\]](#)

Detroit Free Press: “If you win \$1.5B Powerball, here’s what you’ll give up”, January 13, 2016 [\[Link\]](#)

New York Daily News: “Here are the winning numbers for the \$1.5B Powerball jackpot”, January 13, 2016 [\[Link\]](#)

USA Today: “Winners in 3 states to split record \$1.6B Powerball jackpot”, January 14, 2016 [\[Link\]](#)

ABC News: “Winning Powerball Tickets Sold in At Least 3 States for Nearly \$1.6B Jackpot”, January 14, 2016 [\[Link\]](#)

CNBC: “Tallying the Big Tax Bite of a \$1.5B Powerball Win”, January 12, 2016 [\[Link\]](#)

ABC7 (California): “Winning \$1.5B Powerball Jackpot Ticket Sold in Chino Hills”, January 14, 2016 [\[Link\]](#)

KCRA3 (New York): “Three Likely Winners in \$1.5B Powerball Drawing”, January 14, 2016 [\[Link\]](#)

CBS Baltimore: “Winning \$1.58 Billion Powerball tickets Sold in California, Florida and Tennessee”, January 13, 2016 [\[Link\]](#)

WAFB9 (Louisiana): “And the \$1.5B Powerball numbers ARE...” January 13, 2016 [\[Link\]](#)

ABC6 (Philadelphia): “Winning \$1.5B Powerball Ticket Sold in Southern California City” January 14, 2016 [\[Link\]](#)

Deceptive advertising by the Lottery is not limited to inflated “jackpot” values

The Lottery uses deceptive advertising by deliberately causing gamblers to believe they have a *much greater* chance of winning a substantial sum of money than they actually do. The NC “Education” Lottery advertises the odds of winning, but does *not* transparently match the odds to the particular prize. The Lottery will list the value of the jackpot or highest few prizes, but advertise the odds of winning *any* prize, including the lowest-value prize. For the January Powerball, the lottery described the odds of winning **any** prize from one ticket as about 1 in 25.² But the website did not state what that prize would be. Most likely it would be \$4. Most gamblers are aware that the odds of winning the ultimate jackpot are much lower (about 1 in 292 million), but most gamblers are *not* aware that their odds to win even the \$100 prize were only about 1 in 14,494!³

The evidence of deceptive advertising on the part of lotteries is not limited to the recent case. Gambling researcher Robert Goodman has called lottery advertising “the pathology of hope” and state lotteries, because of their exemption from truth-in-advertising laws, fully exploit this pathology.⁴

² See http://www.nc-educationlottery.org/faq_powerball.aspx#43.

Q: What are the odds of winning?

A: The overall odds of winning are 1:24.87. The odds of winning the jackpot are 1 in 292,201,338.

The FAQ does not tell what prize will be won at 1:24.87, instead it is very specific and precise calculated to the nearest 1/100th. This precision is meaningless.

³ See <http://www.durangobill.com/PowerballOdds.html> and see page 2.

⁴ See <http://stoppredatorygambling.org/blog/category/research-center/lottery-advertising/>

As the Lottery Gains, North Carolinians Lose

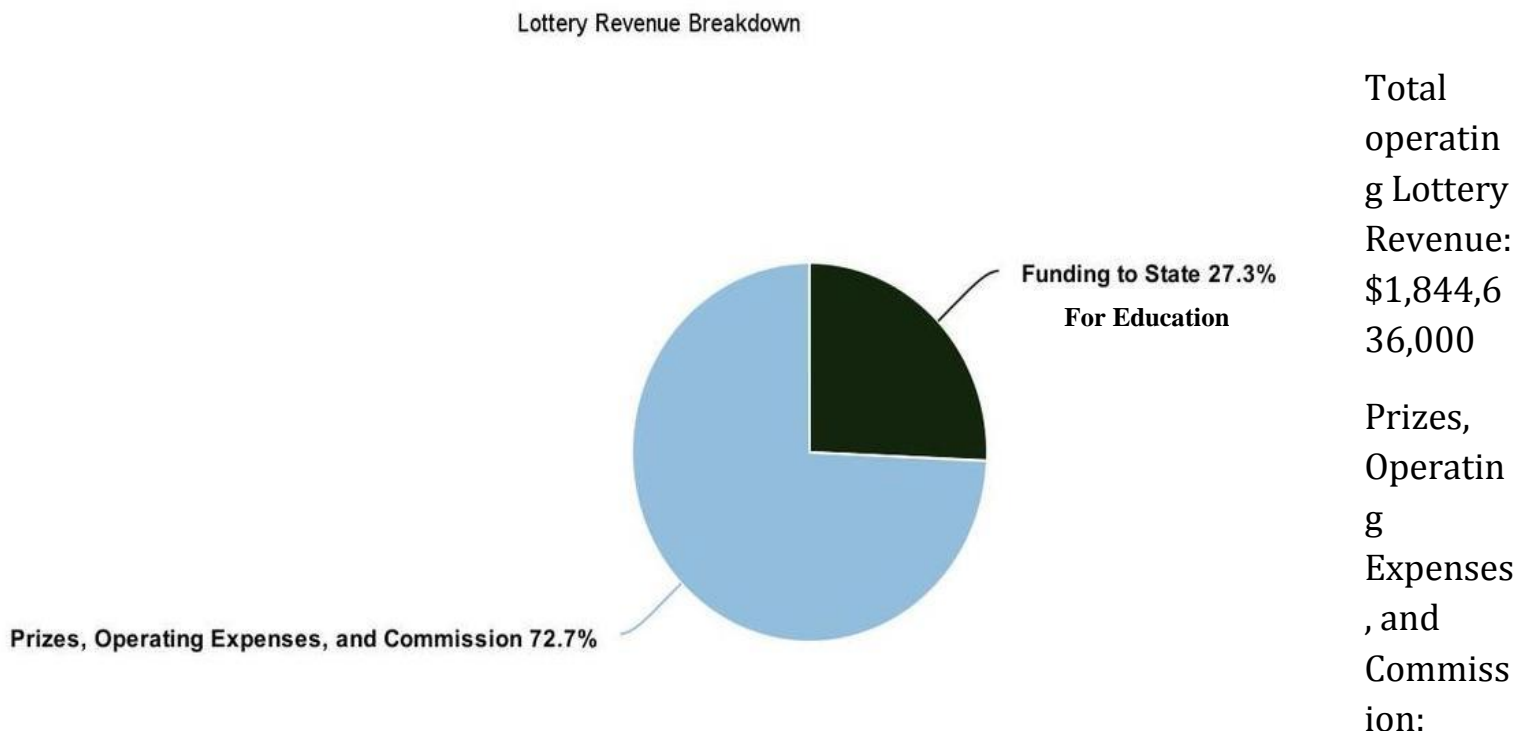
It is no surprise that the “potential” for winning the record (though exaggerated) jackpot corresponded with record Powerball sales in the State of North Carolina. What this really means is that a record number of North Carolinians are being enticed by the deceptive tactics of the NC Lottery Commission and the news media to throw away their money on a highly regressive tax (27% tax is embedded in each ticket).

Lottery gamblers disproportionately have lower incomes and less education. They are enticed to spend money for a reward they are much less likely to receive than they even imagine. If this were a private swindle it would be banned by the Federal Trade Commission.⁵ But since Lotteries are run by the States they avoid those rules.

Does the North Carolina “Education” Lottery really substantially fund education. Let’s take a closer look...

The Lottery and Education Funding

What Portion of the Revenue Generated from the Lottery Goes to Public Education? (FY 2014-15):

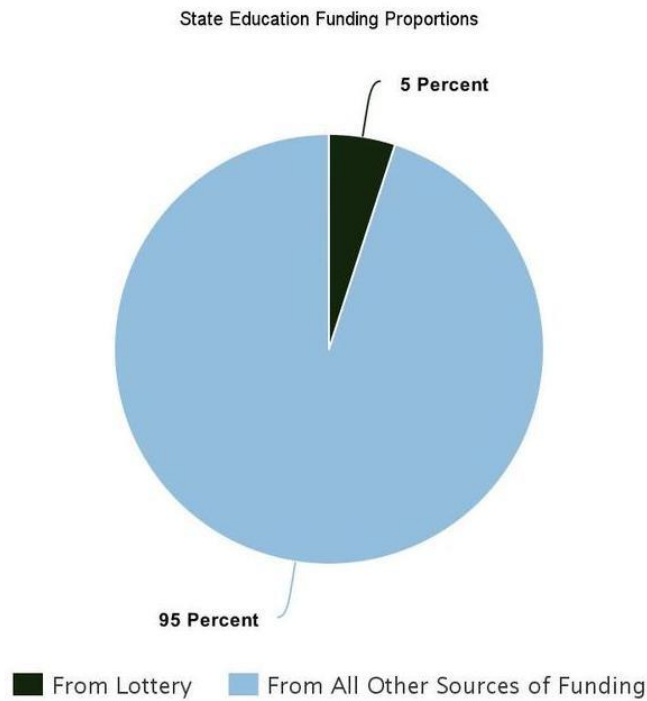


\$1,341,206,000

Funding to State: **\$503,430,000**

Percent of Lottery Revenue that Goes to the State: ~ 27.3%

What Portion of Budgeted Funds for Education Comes from the Lottery? (FY 2105-16):



Total Estimated Funding for NC Public Education for FY 2015-16: \$10.43 billion⁶

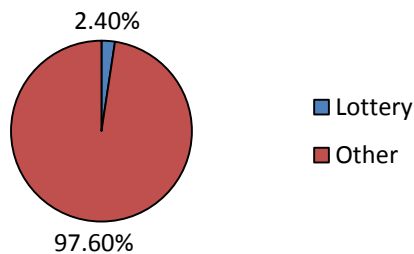
Lottery Revenue Budgeted for Public Education: Approx. \$529,902,000⁷

Percent of Public Education Funding Coming from Lottery: ~ 5%

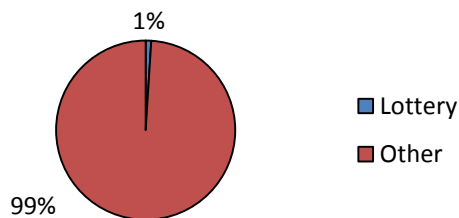
⁶ Represents total value spent on education including State General Fund, State Receipts, and Federal funds

⁷ A portion of these funds go to education not included in the public schools portion of the budget, such as Pre-K and college financial aid

Percentage of the General Fund coming from NC Lottery



Percentage of the Total STATE Budget coming from NC Lottery



Note: As a percentage of the total General Fund (\$21.735 billion), only **2.4%** comes from the lottery; and as a percentage of the total state budget (\$50.4 billion, which includes federal funds), only **about 1%** comes from the lottery.

From these numbers we see two things: First, the lottery revenue that actually goes to the State for education is much less than most people would assume, considering this is an “Education Lottery”. Indeed, many argue that the lottery *reduces* support for education funding because many voters think they have done their part for education by buying lottery tickets.

Second, it would be inaccurate to say that the state significantly depends on funds generated from the lottery for funding public education.

Do States Without a Lottery Spend Less On Education?

In 2013, seven states had no lottery: Alabama, Alaska, Hawaii, Mississippi, Utah, Nevada, and Wyoming.

The average per-student spending for these states in 2013 was **\$11,068**

The US state average per-student spending (excluding northeast states for more accurate comparison because none of the non-lottery states are in this region) was **\$10,552⁸**

So, as of 2013, states with no lottery spent more per student on education than comparable lottery states!

Do States Without a Lottery Place a Greater Tax Burden on Their Residents?

In 2015, the average state top marginal income tax rate for the US (again excluding states of the Northeast for consistency) was **5.08%**, compared to an average rate of **4.33%** for non-lottery states.⁹

⁸ See <http://www.governing.com/gov-data/education-data/state-education-spending-per-pupil-data.html>

⁹ See <http://taxfoundation.org/article/state-individual-income-tax-rates-and-brackets-2015>

Likewise, the average sales tax rate for all states (excluding Northeast states) was **6.52%**, compared to an average rate of **6.12%** for non-lottery states.¹⁰

Having a lottery does not reduce the tax burden.

The Lottery is not essential for education in North Carolina. But it does teach: bad math, sloth, envy and covetousness.

The Federal Trade Commission regulates sweepstakes and declares a practice deceptive if it “...is likely to mislead consumers and effect consumer behavior or decisions about the product or service”¹¹. The FTC mandates that sweepstakes operators advertise the odds of winning the prize in question, and any pertinent material information¹². The FTC defines material information as “information that would likely affect a person’s choice of goods or services or the person’s decision to make a charitable contribution”.

If lotteries were regulated by the FTC, lottery advertisers would clearly advertise the odds of winning each prize, stating the real value of the jacks in the pot – and stop advertising the illusory “jackpot”.

¹⁰ See <http://taxfoundation.org/article/state-and-local-sales-tax-rates-2015>

¹¹ Bennett, S. (2007). An Introduction to Sweepstakes and Contests Law. *The Practical Lawyer*.:
[http://www.jonesday.com/files/publication/69ea168c-4173-4321-9fa5-](http://www.jonesday.com/files/publication/69ea168c-4173-4321-9fa5-d4b8bb86ae1c/presentation/publicationattachment/b9a311c5-f53d-4a89-97fc-d85993081c2e/bennet.pdf)

[d4b8bb86ae1c/presentation/publicationattachment/b9a311c5-f53d-4a89-97fc-d85993081c2e/bennet.pdf](http://www.jonesday.com/files/publication/69ea168c-4173-4321-9fa5-d4b8bb86ae1c/presentation/publicationattachment/b9a311c5-f53d-4a89-97fc-d85993081c2e/bennet.pdf)

¹² See <https://www.ftc.gov/tips-advice/business-center/guidance/complying-telemarketing-sales-rule#materialinfo>



NORTH CAROLINA GENERAL ASSEMBLY

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Mark Trogdon, Director

February 10, 2016

Rep. Stam, Rita, and Brian

You asked a series of questions regarding the recent Powerball jackpot of January 2016. Specifically:

1. How much revenue was generated from tickets sold in NC
2. From the total NC revenue, how much will go to:
 - a. The Gaming Vendor
 - b. Prizes
 - c. Retailers
 - d. Education in NC
3. Estimates of the taxes collected from the Powerball run from both the State and federal government using maximum tax rates
4. Any additional money going to either the State or federal government
5. If the Powerball annuity were extended to 50 or 100 years, what would be the advertised value

1. Total NC Powerball Revenue From January Jackpot

According to information provided by the Lottery Commission, total NC Powerball sales during the January jackpot run totaled \$101,202,033.

2. Allocation of Total NC Powerball Revenue

For Powerball, jackpot prizes are aggregated at the national level while non-jackpot prizes are funded from the state where the sale occurred. Since none of the January jackpot winners were within the State, total prizes will need to reflect the State's share of the national Powerball jackpot prize in addition to non-jackpot prizes won within the State.

Gaming Vendor

The vendor for the Lottery Commission is compensated by a fee of 1.599% applied to all ticket sales. Therefore, total compensation to the vendor would be total sales (\$101.2 million) x 1.599% = \$1.6 million.

Prizes

Total Powerball sales revenue funded both national jackpot and State non-jackpot prizes. As a result, total prizes would include both the State's proportional share of the jackpot prize (approximately \$31.5 million) and the total non-jackpot prizes won in the State (\$20.1 million).

Retailers

By statute, retailers are compensated by a fee of 7% applied to all ticket sales. Therefore, total compensation to retailers would be total sales (\$101.2 million) x 7% = \$7.1 million

Education in NC

The estimated net proceeds resulting from the January Powerball run is \$38.5 million¹. Since these proceeds constitute a portion of FY 2015-16 forecasted lottery proceeds, the funds would be allocated to programs appropriated lottery proceeds in the most recent budget. While it is not possible to track the destination of each individual lottery dollar, a fair assumption would be that the Powerball proceeds would be allocated in proportion to the total lottery proceeds budgeted for each educational program. Using that assumption, the proceeds from the recent Powerball run are represented by program in the following table.

Table: January Powerball Net Proceed Allocations

Program	FY 2015-16 Proceed Allocations (\$ in millions)
Noninstructional Support Personnel	\$22.6
Prekindergarten Program	\$5.7
Public School Capital	\$7.3
Scholarships for Needy Students	\$2.2
UNC Need-Based Aid	\$0.8

Note: Figures may not add due to rounding

3. Federal and State Tax Revenue Estimates

This analysis will only provide estimates for tax revenue collected on prizes subject to withholding. Under current law, any lottery prize \$600 or greater in value must be claimed at a Lottery Commission claim center and is subject to State and federal withholding. Any prize less than that amount can be redeemed at any lottery retailer and is not subject to withholding. Players winning prizes less than \$600 would be responsible for reporting that income to the Internal Revenue Service and the Department of Revenue. This analysis assumes a 0% self-reporting rate.

Of the \$22.1 million in Powerball non-jackpot prizes won in the State during the January jackpot run, \$8.25 million was subject to withholding. Since non-jackpot Powerball prizes subject to withholding are sizable (\$50,000 or greater), it is anticipated that these winnings would significantly increase the taxes due by the prize winner. While each individual's tax situation will be different, this analysis will assume that all winners take both the federal and State standard deduction and receive sufficient personal income without the prize winnings to fully offset the standard deduction.

Maximum Tax Rates

State tax revenue - \$8.25 million x 5.75% = \$474,375

Federal tax revenue – approximately \$1.9 million²

4. Any Additional Money Going to the State or Federal Government

There is no additional money from the January Powerball going to the State. The federal government would receive additional tax revenue from prize winnings in other states. Total non-jackpot prizes awarded outside of

1 Total Revenue (\$101.2 million) - Vendor Compensation (\$1.6 million) – NC Share of National Jackpot (\$31.5 million) – NC Non- Jackpot Prizes (net of est. unclaimed prizes) (\$19.9 million) – Retailer Commissions (\$7.1 million) – Est. Share of Lottery Commission Administration (\$2.6 million) = ~\$38.5 million.

2 Figure represented makes the following assumptions: Median household income of \$46,334. All winners file as MFJ and claim the standard deduction with two exemptions. Average additional income from prize winnings is \$168,367 (\$8.25 million/ 49 winners).

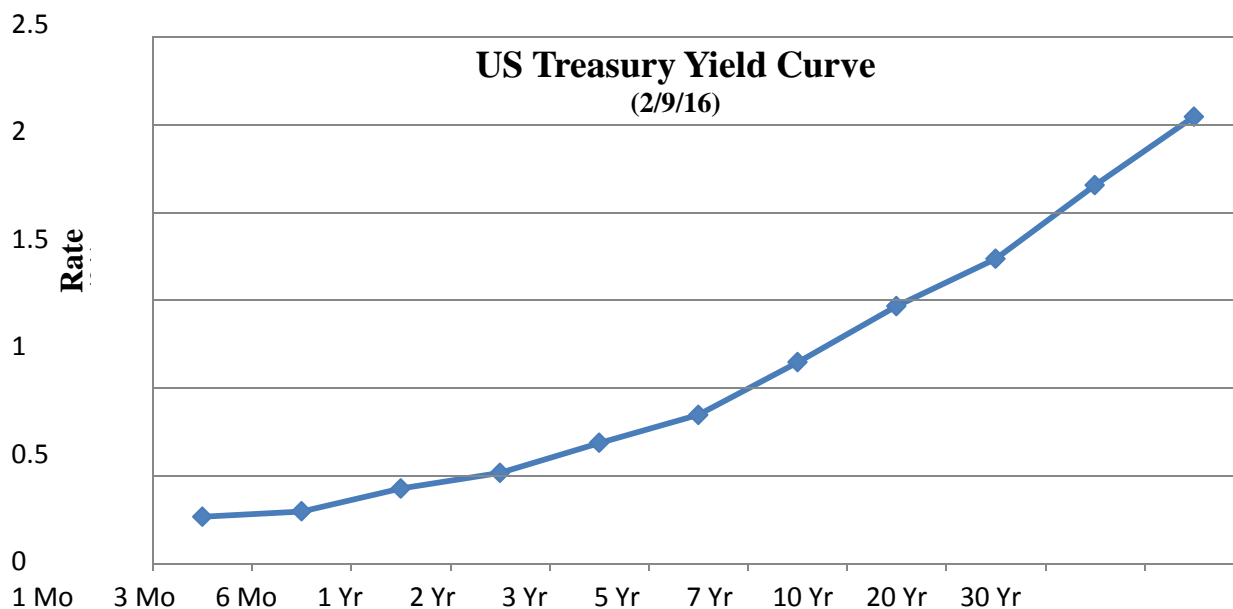
the State during the Powerball run totaled \$603.2 million. These prizes are in addition to the \$983.5 million (cash value) jackpot.

5. Estimated Impact of Extending Powerball Annuity

In addition to the January Powerball jackpot, you asked us to estimate the impact of an advertised annuity for

Powerball games if the annuity period were extended past 30 years to 50 and 100 years respectively. As we understand, the Multi-State Lottery Association (MUSL) determines the advertised annuity value by taking the cash value of the jackpot at the time of the drawing and determining what rates are available on US Treasury bonds at various stages on the yield-curve. Based on the rates available in the marketplace, MUSL determines the total annuity value at that point. The table below displays the US Treasury yield curve as of February 9, 2016.

3



Maturity

Extending the payments past 30 years would require some additional fund management to incorporate the maturation and reinvestment of bond proceeds to fulfill 50-100 year payments. Rather than make estimates regarding the amount of bond purchases at various stages of the yield curve and reinvestment of bond proceeds, a simpler calculation of the impact of extending the maturity past 30 years is to examine the recent Powerball drawing and apply the simple interest rate over a longer time period. By examining the recent Powerball cash value (\$983.5 million) and the advertised annuity value over 30 years (\$1.6 billion), the calculated simple interest rate is 2.09%. When compared to the yield curve presented above, this rate is representative of what we would anticipate for the weighted average of a portfolio of Treasury bonds held at various maturation dates. When this simple interest rate is applied to the cash value of the recent Powerball jackpot (\$983.5 million) over

50 or 100 years, the advertised annuity value would be \$2.01 billion and \$3.04 billion respectively.



Memorandum

To:

From: Representative Paul Stam

Date: October 24, 2014

RE: New Lottery Ad is Extremely Misleading: "All or Nothing"

The NC Lottery continues to publish misleading advertising. Most of these advertisements would be banned if the NC Lottery were subject to the Federal Trade Commission's standards that private businesses must follow. The advertising is now getting worse.

A recent advertisement from September 2014 that I attach promotes a new game called "All or Nothing." It opens by stating that a darts player can win a game by hitting the bullseye with all three darts that he or she throws. Next it shows three darts that hit a wall far to the left of the bullseye. The advertisement goes on to state, "But what if you could win with nothing." The advertisement cuts to a new screen that explains the new "All or Nothing" lottery game; a player can win if the player is able to get all of the numbers correct or none of the numbers correct. Do you recognize the misleading nature of the advertisement?

If not, let me explain. The crux of the problem is that the advertisement compares a person not hitting a dart board three consecutive times to that of a person not being able to match numbers with any of the winning lottery numbers. If I were able to win a darts game by not hitting the bull's-eye three consecutive times, I could easily do so with unerring certainty a million times in a row. All I would do is turn around and throw three darts in the complete opposite direction of a dart board.

Can you use a similar method to win this lottery game? No. A player cannot purposefully select none of the winning numbers in the lottery game like he or she can purposefully lose a darts

game. By comparing a game of skill to a game of chance the Lottery Commission is falsely claiming that skill can prevail.

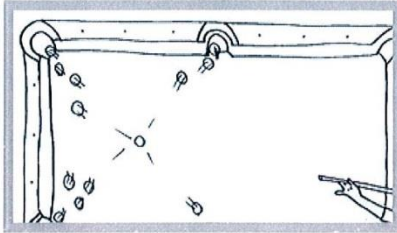
A similar advertisement also aired in September 2014 that compared the “All or Nothing” game to that of a billiards game. It opens by stating that a billiards player can win a game by hitting the cue ball so that the players sink all the balls into the pockets. Next it shows the cue ball missing all the player’s balls. The advertisement goes on to state, “But what if you could win with nothing.” The advertisement cuts to a new screen that explains the new “All or Nothing” lottery game; a player can win if the player is able to get all of the numbers correct or none of the numbers correct.

This time the advertisement compares a person not sinking any balls to that of a person not being able to match numbers with any of the winning lottery numbers. If I were able to win a billiards game by not sinking any of my balls, I could easily do so with 100 % certainty. All I would do is continuously lightly tap the cue ball in the opposite direction of my balls. A comparative method cannot be used to win the “All or Nothing” lottery game because it is a game of chance. A billiards player, however, has control over where and how hard he hits the cue ball.

Two other similar advertisements were published in September that perpetuates this same fallacy. One involved a cornhole game and the other illustrated bowling. The same conclusion still applies to these adds: A player in games of skill, such as cornhole and bowling, has control over outcomes that lead to points or a win by a value of “nothing”. In the “All or Nothing” lottery game a player cannot purposefully select none of the winning numbers.

By comparing a game of chance to a game of skill, our lottery commission intentionally tells its customers that there is something they can do to affect the odds. But there is not.

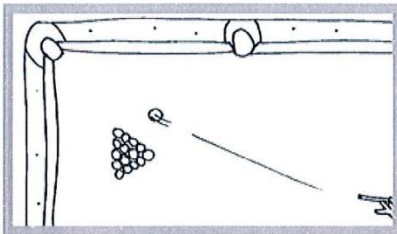
16031 All or Nothing :30 "I Got Nothing" Version 1
First airs September 2014 | Revised August 21, 2014



Dramatic, anthemic music track.

Open on a billiards cue ball being struck and sending all the balls into pockets. The shooter celebrates.

ANNCR: **Anyone can win by making them all.**



Cut to the same ball being mishit and missing the balls entirely. The shooter celebrates.

But what if you could win with nothing?



Cut to animated text.

SUPER: All or Nothing Logo

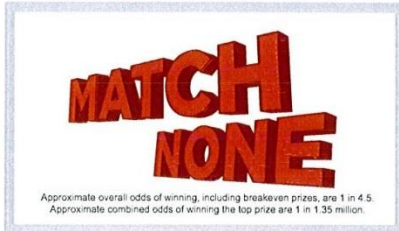
ANNCR: **Now there's All or Nothing, the game where you could win \$250,000 by matching all or none of the numbers drawn.**



LEGAL: Approximate overall odds of winning, including breakeven prizes, are 1 in 4.5. Approximate combined odds to win the top prize are 1 in 1.35 million.



16031 All or Nothing :30 "I Got Nothing" Version 1
First airs September 2014 | Revised August 21, 2014



Cut to a bowling ball rolling into the gutter, missing all the pins.
The bowler celebrates.

ANNCR: **Nothing has never been so exciting.**

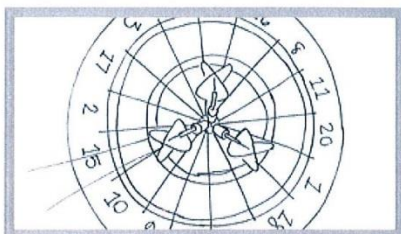
NCEL logo

LEGAL: MUST BE 18 TO PLAY. Problem Gambling Helpline:
877-718-5543.



Visit nc-educationlottery.org for additional information.

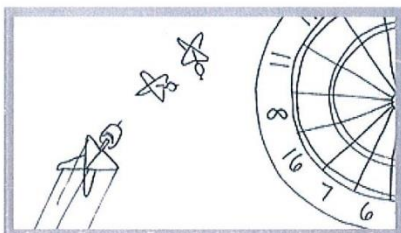
16031 All or Nothing :30 "I Got Nothing" Version 2
First airs September 2014 | Revised August 21, 2014



Dramatic, anthemic music track.

Open on a dart going into the bullseye where the other two darts are. The thrower celebrates.

ANNCR: Anyone can win by scoring all the points.



Cut to a dart going into the wall instead of the dartboard. The other two darts are in the wall too. The thrower celebrates.

But what if you could win with nothing?



Cut to animated text.

SUPER: All or Nothing Logo

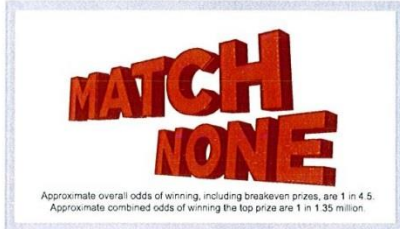
ANNCR: Now there's All or Nothing, the twice daily game you can win by matching all or none of the numbers.



LEGAL: Approximate overall odds of winning, including breakeven prizes, are 1 in 4.5. Approximate combined odds to win the top prize are 1 in 1.35 million. Visit nc-educationlottery.org for additional information.



16031 All or Nothing :30 "I Got Nothing" Version 2
First airs September 2014 | Revised August 21, 2014



Cut to a cornhole board with three bags on the board.
The last bag flies in and lands on the board. The thrower celebrates.

ANNCR: **Nothing has never been so exciting.**

NCEL logo

LEGAL: MUST BE 18 TO PLAY. Problem Gambling Helpline:
877-718-5543.



Visit nc-educationlottery.org for additional information.

What is N.C. after? Bucks, bucks, bucks!

Lottery commission steps over (impossible) line with latest ad.

Charlotte Observer

Posted: Friday, May. 27, 2011

Oh, how far North Carolina will stoop to attract a few more dollars to its statewide gambling monopoly.

North Carolina's lottery officials are in a pretty tough position. But the law's the law, and you can make a good case that they're breaking it.

To help get the votes to create the lottery, legislators gave lottery officials Alice-in-Wonderland orders: Advertise the lottery in a way that doesn't entice people to play.

True, the entire point of advertising is to sell your product. But the law says "no advertising may have the primary purpose of inducing persons to participate in the lottery."

That provision was designed to placate skeptics who (rightfully) worried about a lottery feeding gambling addictions among people who can't afford them.

Now, six years after it was created, the lottery commission is running TV ads that sure seem enticing to us. A rock band belts out "big bucks, quick bucks, big old bucks, mega bucks." Names like "Jumbo Bucks" and "Bucks, bucks, bucks" scroll along the screen.

Alice Garland, the lottery's executive director, seems to have conflicting opinions. She defends the ad, saying, "We take our lottery law and responsibility for advertising very seriously This ad passed our test of not being enticing ..."

But she also pointed out that the lottery is competing for people's discretionary money. "We see advertising as critical to the success of a sales organization, which is what we are," she told News & Observer reporter Rob Christensen.

We understand her dilemma. Effective advertising is crucial to lottery sales, but the law says their advertising is not allowed to be effective. Maybe the law needs to be made more specific, since almost any ad could be perceived as trying to persuade people to play.

But the genesis of that provision is a good one. A lottery is a tax that inherently plays on people's emotions. Studies have shown that lottery ticket sales are highest in poor neighborhoods and that poor people spend a higher percentage of their income on lottery tickets than wealthier people do.

Young people are especially susceptible to gambling addiction, meaning ads targeting them - with, say, rock bands - are particularly offensive.

When the lottery passed under shady circumstances in 2005, this editorial board said this: "Once North Carolina's lottery gets under way, the state will find, as all others have, that public interest declines in time and so will revenues. To boost them, the state will have to become a carnival barker, aggressively enticing citizens to make sucker bets in order to keep the cash flowing. It won't be a pretty sight."

So here we are. Rock bands blurting out "bucks, bucks, bucks" as the state demonstrates that its desire for cash outstrips its respect for its citizens.

Advertising may be crucial to the lottery's success, as executive director Garland says. But the law is clear: The lottery commission needs to take the current ad down

Not matching
old to prize

"DINER"

In front of the *Welcome to NC* sign.



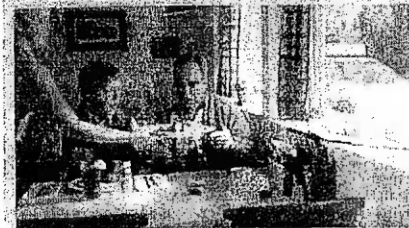
Jerry: Today we're chasin' jackpots way down here in North Carolina. Oh, saw a big one today didn't we, Pam?

SUPER: Must be 18 to play.



Pam: Oh ya. And now we're gonna have soma' that famous bar-be-que.

Interior diner.



Pam: ...Oh. That's a big plate.

Jerry: This might be just the place to play the Bigger Better Powerball.

Pam: You betcha. They like their big down here, Jer.



Pam: Jer, look at the Powerball. They're showin' it!

Jerry: Oh, gee that is big. It's like huge big.



SUPER: (On screen 5 seconds) Jackpot amount and Powerball logo.

SUPER: ESTIMATED ANNUITY.
Approximate jackpot odds 1 in 175.2 million.
Problem Gambling Helpline: 877-718-5543.



Pam: Oh, this tea is sweet. It's like pop without the carbonation.

SB 744, “Appropriations Act of 2014”

North Carolina Senate

Senate Appropriations - Lottery

June 12, 2014

Edited for clarity and grammar

The audio is available on CD

Co-Chairman Sen. Harry Brown
Co-Chairman Sen. Kathy Harrington - presiding
Co-Chairman Sen. Neal Hunt
Co-Chairman Sen. Brent Jackson

Chair - Senator Kathy Harrington

So the main purpose of this meeting is to review the budget differences between the House and the Senate. The budget's not covered by subcommittee review, so [*I've been*] conducted this week. And we're particularly interested in some of the major differences, especially differences in the lottery and salaries and benefits.

Is the lottery prepared?...Alright, we're going to stand at ease for just a moment...

Alice Garland, would you please come to the podium?...If you would please come to the well, thank you, for your presentation.

While she's making her way, some of the most fundamental differences between the House and Senate budgets are related to the lottery. Alice Garland of the North Carolina Education Lottery is here to explain the differences in the lottery revenue estimates in the House and Senate budgets. Later this week Fiscal Research and OSBM will provide us with a revised estimate on lottery revenues.

Ms. Garland?...You'll need to turn your microphone on.

Alice Garland: Good morning. I'm Alice Garland, Executive Director of the North Carolina Education Lottery. I have with me in the audience my Commission Chair Keith Ballantine.

Thank you so much for this opportunity to talk to you today about lottery sales and advertising. The Education Lottery is a sales and marketing organization. As such, advertising is... We advertise our products in a very similar manner to all other retail sales enterprises. Our mission, as designated in our legislation, is for us to maximize sales in order for us to maximize our return to education.

Our instant ticket sales in this fiscal year that ends in a couple of weeks are a testimony to the effectiveness of lottery advertising. In Fiscal 14 we changed our advertising strategy. We put more of our advertising dollars into primetime. We conducted our First Tuesday campaign, and we advertised an entire group of tickets being launched as opposed to focusing on just one ticket. These changes produced a 16% increase in instant ticket sales in that product, which I think shows what advertising can do.

The House Appropriations Chairs, with very short notice, asked the lottery to provide scenarios for increasing the return to education by various dollar levels. We provided multiple scenarios, all of them based on today's advertising conditions. None of the scenarios that we provided took into account additional advertising restrictions.

You have requested that we discuss three different scenarios: advertising at ½%, at 1% and 2% - and the 1% is what we're allowed in our statute today - and what the impact on these scenarios would be of additional restrictions on advertising. As you review these scenarios, as we review them together, please keep in mind the lottery primarily sells at gas and convenience stores, and we are competing for our share of the players' disposable income. Other retail products in those stores, largely snacks and beverages, spend anywhere from 4 to 10% of their sales on advertising.

I'd like to turn to the handout I believe you all have. It's a multicolored column, and these are the scenarios that we were asked to present. I just want to quickly review the two columns on the right. These are both Fiscal 15, this upcoming fiscal year budgets. We provided the far-right column in March of 13 for the biennium budget, and then the second column we revised in April of this year. We had more Fiscal 14 sales on which to base a revised budget. You'll note, if you look down at the dark green line at the bottom, that between March of 13 and April 14, we increased the projection by about \$20 million. You have budgeted that \$20 million. That \$20 million is in your budget for Fiscal 15.

So if we look at the middle green column labeled "June 3, 2014, Fiscal 15 Commission," this is the budget as adopted by the Education Lottery Commission. It says that we will have sales of 1.8 billion, and we will return to Education 488 million. This is based on having 1% for advertising, and actually we budgeted .94%; we seldom budget the full 1%. It includes two new draw games: one in October of this year and one in March of next year. North Carolina has a very low number of draw games. We have five games; most states have eight or more. This will start to bring us more in line with other state lotteries. The last time that we introduced a new draw game was in January of 2010, so it's been quite a while, and that was the Mega Millions game. We have total confidence in meeting this number.

If you move to the left to the red column, this is what would happen if we only had ½ of a percent to spend on advertising. Looking at a study done by the University of Texas using their econometric model—and I will tell you that some of the study was pretty dense—every \$1 decrease in advertising leads to a twenty-dollar-and-fifty-cent decrease in sales, so this is the model that we used. It would reduce our sales by 186 million and reduce the return to education by 45 million, bringing it to 444 million, which really reverts us back to amount that we returned to education in Fiscal of 11.

The impact on our advertising [*spin?*] would be that we would, because we would be spending essentially half of what we spend today it would cut the agency fee – Trone Advertising out of High Point is our advertising agency – it would cut our production costs. We would not be able to produce as many ads. It would seriously cut the dollars that we have available to make that media buy. We would be able to have no digital advertising on the internet and no print advertising. Our media buy, when we're buying actually air time – radio or TV, would go from 12.2 million to 4.9 million. For a state-wide, 12 months of the year campaign, that is a very small amount of money. It would seriously impact our ability to keep our production in front of our players, and keeping product in front of players is critical to any sales and marketing organization.

And then the final column, the 2% advertising, it shows what we could do if we had double the money. And this is the column that we provided to the House Appropriations Chairs, and this is the number that you have been seeing...that's the number you see in their budget. This would allow us to maintain a very strong consistent player base. It would bring the total return for Fiscal 15 from the lottery to \$594 million – almost \$600 million.

What this additional 1% would allow us to do: First, we could place a media buy to advertise Powerball and Mega Millions Jackpots. Right now we rely solely on our billboards and our jackpot signs; we don't make any media buys for those jackpots. It would allow us to have a monthly media buy for our instant product. That's that First Tuesday Campaign. We do that about eight months...We did that about eight months this year. It would allow us to do it all 12 months. It would allow us to be able to advertise our in-state draw games: Carolina Cash Five, Pick Three, Pick Four, which we don't advertise, for the most part, right now. It would allow us to advertise our core instant games – we have two core families that are always available – much more regularly than we do now. It would give us sufficient dollars to advertise those two new draw games that I mentioned, and that's really important. Again from this same University of Texas study, they noted that a lottery needs well-directed and well-informed advertising efforts on new games or the games may not realize their full potential. And if we're going to introduce two new games this year, we absolutely want to meet the potential of those two new games.

Other changes that we would make in our strategies in order to meet that \$106 million target is we would move that March draw game, March of 15 draw game that we're planning, to September of 14, giving us six more months of sales in the fiscal year. That would then actually open a slot where we could add another draw game in March of 15, giving us four months of sales that we've not built into any budget, and it would allow us to add a higher price point game to our instant product.

So all of this that I've mentioned in terms of what we could do if we had 2% would be a much more aggressive approach than the citizens have been accustomed to from the lottery, but we believe with this approach that we hit the 106 million increase in our return.

The final thing that we were asked to talk about was the effect of House Bill 156, the provisions that the House added into the budget that would add lottery advertising restrictions. I would like to start by saying that the lottery has operated very responsibly over the last eight years. We keep our players... We look at our players as our customers, and we take great pride in keeping them informed. We want our players to understand lottery games. We want them to know what the odds are for winning and what the prizes are. We share that information daily on multiple channels: advertising, marketing and communications. And we have a customer service hotline dedicated to our players that answer questions every day from players about how to play our games. So we've worked really hard on that. And I will tell you that the author of this language wants to see the lottery fail and wants to put the lottery out of business, and that is why those restrictions were put into the House budget.

These restrictions would waste lottery dollars by making our advertising spins less efficient, and this would result in getting a smaller return for that investment in advertising. As a sales and marketing organization we need to use our advertising dollars absolutely to their best advantage, and that needs to be making efficient buys. And the other thing is that when our sales drop, it means that our retail commissions drop, so our retail partners would also see a drop in their income.

So what's the impact of these new restrictions that are in the House budget bill? The first is that there's language in the bill that says anytime that we advertise a game that is an annuity, we must also provide the cash value – and we do that every place it is feasible to do that. The two places that we don't are on our 60 billboards and our 3,000 jackpot signs that are at retail. This would require that all of that signage have both the annuity jackpot and the cash value. No other state does this. We would be the only state providing this kind of information on signage. It would require that the billboards have a second digit box. So if you'll call to mind the billboard as you're driving down the highway, it would have to have a second digit box, and the jackpot signs that you see at retail would have to have a second line of numbers. It would require a satellite feed to send to the board that second number. That feed's not currently available; no one is sending that feed. That entire process would have to be established. There would be about an 18-month timeframe for replacing the billboards and jackpot signs, and we would be replacing boards and signs that still have a useful life – absolutely not a wise investment of money.

We also believe, and we have estimated this in the numbers, that we would lose Powerball and Mega Millions sales. On billboards you have a very short read, and what we really want the player, when they see that billboard, to know is what's the jackpot. That's what folks care about. So there's going to be a second number. It's going to be confusing. No other state's going to have this. One of the lessons of advertising is you've got to keep it simple, and all we're doing is making it more confusing. We absolutely believe that we would be pushing sales to other states because other states wouldn't have this dual message.

The third thing that these restrictions would do that would have, we think, a serious impact is that we would have a lost advertising opportunity by not being allowed to purchase top-tier programming during college athletic events. For the football season we have three of the top 25 media markets. For basketball season we have three of the top ten media markets in country. This is prime TV time, and we're able to purchase that time now. To try to get the same number of eyes, the number of viewers, to see an ad, we would have to purchase about three times the amount of time to make up for the loss of being able to advertise during college athletics. Again, spending more money to receive the same value - completely inefficient way to spend your money.

So if the lottery is to operate like a business, which we very much try to do, very focused on our bottom line, then these restrictions would seriously impact our ability to do so. So if you want to look at the dollar impact, you'll go to your chart to the bottom two rows, mainly in red, and...I lost my page...So, if you look at our current budget, the budget that my Commission has passed, the budget under which we anticipate operating in Fiscal 15, it would reduce our return to education by 44 million, taking us to 444 million - back to Fiscal 11 return amounts. A half of a percent advertising, that return would be reduced by 43 million, taking the return to 401 million, which takes us back to what we were providing for education between fiscal year 8 and fiscal year 9 numbers - a serious turn back. Two percent advertising would reduce that return by 47 million by taking us to 448 million for that return. So it's still an increase over what we are projecting a steady [*stay?*], but obviously less than we could accomplish if we had 2% with no restrictions.

One of the reasons that we have provided this information in kind of a financial state form is that we thought it would be helpful for you to see exactly how lottery dollars are being spent. So this is essentially a capsule of our budget showing revenues in and expenses out, and that is what I wanted to bring to you. And I'm happy to answer any questions.

Chair Harrington: Thank you, Ms. Garland. Questions from the committee? Senator Brown.

Sen. Brown: Thank you, Ms. Chairman...Ms. Chairman, that's what I said. Ms. Garland, obviously then the budget that the House put together used additional, I think it was \$106 million of lottery proceeds. So what you're saying is with the restrictions they put also in their budget that that's just not a feasible number in your opinion?

Alice Garland: That is correct. We will not be able to hit \$106 million with those restrictions.

Chair Harrington: Follow up?

Sen. Brown: Follow up?...I know you having a projection here that the restrictions would cost about \$47 million. I feel that you feel certain about these numbers to a point, but it's still hard to be certain, I guess, because of the restrictions that are in the budget, as well. These are the best estimates I guess that you could come up with in a short period of time?

Alice Garland: Yes, and really similar to how we do budget projections: we're looking at sales figures from the past; we're extrapolating from those school years for an impact on sales in the other direction - and we're doing the same thing. So, it's our best projection, but we believe it's pretty close to accurate.

Sen. Brown: Okay, thanks.

Chair Harrington: Senator Apodaca?

Sen. Apodaca: Thank you, Madam Chairman. I'd like to ask my first question to Senator Brown, if I may?

Chair Harrington: Do you yield?

Sen. Brown: Sure.

Chair Harrington: He yields.

Sen. Apodaca: Senator Brown, I was just thinking and this will go with Senator Tucker, too. If you're going to have a big sale at your car business next month, would you go in and cut your advertising budget in half and expect to sell a substantial amount of cars more than you did this month?

Sen. Brown: Absolutely not. I do have a big sale, so I'd like you to buy a car, but

Sen. Apodaca: Well, I'll be happy to talk to you about it if you'll deal for one. So, anyway...

Sen. Brown: But absolutely not. And I think the restrictions, as well, on the advertising is important because, you know, where you place those buys and how you can place them is definitely important as far as returns go.

Chair Harrington: Follow up?

Sen. Apodaca: I think he said it all. Thank you.

Chair Harrington: Thank you. Senator Tillman.

Sen. Tillman: Thank you, Madam Chairman. Thank you, Ms. Garland. You know, either you... To send a budget over like this putting something as important as teacher raises on lottery receipts, and then cutting your arm off on how to raise this money, you either want to defeat the lottery and get rid of it or make it ineffective, or you're not serious about teacher raises. You cannot reduce your revenue from lotteries with these silly advertisement restrictions. We see how you can raise the money, and I think these figures are pretty good. The lottery's track record on predictions have been very good, and you've done an excellent job, Madam. Whether you're for the lottery or not, that's not the question. The question is now: let's make it work. So we need these silly restrictions off and we don't need to put teacher salary in the lottery money unless we are pretty darn sure that we're going to raise the 106 million, or whatever we happen to come up with. And you show a whole lot more than... You show more than that with your unrestricted 2%.

So I'm just saying if you're serious about teacher raises, you won't tie your hands on the way to raise the money.

Chair Harrington: Thank you for your comments, Senator Tillman. Senator Rucho.

Sen. Rucho: Thank you, Madam Chairman and Ms. Garland. I found it interesting of all the times that someone from the lottery were to come here, the first time they've ever admitted the fact that they're out competing with the disposable income of the working families in our State.

I'm going to come from this from a different perspective as far as saying using this as a sort of money for ongoing government expenses is really not a good business decision. But what's worse is, and if you look at your scenarios of between 2.75 and one eight billion dollars, that money that you're competing with the private sector pretty much hits a dead end and doesn't do the same thing. So in essence, you're actually hurting the economy by the more you expand this by using disposable income for lottery rather than for purchasing Senator Brown's car, or Senator Apodaca's products that he's selling. So the last thing I would want to do is expand this because we're working so hard to make this North Carolina economy a lot stronger, and it would be an absolute disaster to base teacher salaries on something that is actually detrimental to this economy.

Chair Harrington: Thank you, Senator Rabon...excuse me, Senator Rucho. Would you like to respond, Ms. Garland?

Alice Garland: Yes, thank you. I would like to say that actually there are a number of ways that the lottery puts money back into the economy. First and foremost are the prizes that we pay. Those dollars are going back into the economy. And the big winners who come in, the first thing we say is, "What are you going to do with this money?" and they say buy cars, buy houses, send my kids to college, renovate my house, take a vacation – that's money going right back into the economy.

The second thing is that we pay retailer commission, and that's income going to our retailers. So that's money back into the economy. And the third is that we spend money with vendors in North Carolina. You know, we have a significant buy with our ad agency; we have a number of other contracts where we're spending money with contractors. So we are actually putting a pretty decent amount of money back into the economy.

Sen. Rucho: Follow up?

Chair Harrington: Senator Rucho.

Sen. Rucho: Yes, ma'am. Thank you. I do understand what you're describing, but the real question was how much of an economic impact would you get? And I would probably not ask everybody in this audience how many of them have been winners in the lottery to buy enough...to win enough to buy a car from Senator Brown. So I think that's a false premise, but thank you.

Chair Harrington: Thank you. Senator Apodaca?

Sen. Apodaca: I'm going to take issue with my dear friend from Charlotte. Well, it's the Charlotte thing. Senator Ford, if you'll move, we'd be fine, but, well...(laughter). Okay, Mecklenburg County. But anyway, I regress.

Look, we never bought lottery tickets until these big mega things, and my wife, if it gets over 200 million, she goes out and buys lottery tickets. Now we don't spend a massive amount, but I do feel like those are monies that, you know, we're able to manage. And I don't think we hurt the budget, and I think it puts money into the economy. I disagree with that. I do think it ends up back in the economy in some fashion. Now it might not end up in the way we want it to, but it still comes back in. So I just disagree with Senator Rucho...

Sen. Rucho: Madam Chairman?

Sen. Apodaca: And I know that doesn't...

Chair Harrington: Thank you for your comments

Sen. Apodaca: ...happen often, but...

Sen. Rucho: Madam Chairman, can we...

Chair Harrington: Senator...Senator Rucho?

Sen. Rucho: Can we ask if Senator Apodaca actually won one time?

Sen. Apodaca: Do you want to fi...?

Chair Harrington: Senator Apodaca, do you yield?

Sen. Apodaca: I do. Mrs. Apodaca won \$20 one time.

(laughter)

Chair Harrington: Congratulations. Senator Tillman.

Sen. Tillman: Madam Chairman, I think we're talking about...We got the lottery. We're not talking about whether we ought to have it, Senator Rucho, or whether it's good for the economy or bad for the economy. Fools will play the lottery and now if we can attract more fools to play the lottery and they choose that, I'm not sticking a gun to their head. We're talking about will it produce enough revenue to put something like teacher raises...What I'm looking at in the lottery receipts...Whether they're dependable or not, though, Senator Rucho, I don't know, but I know their figures have been good ever since I've looking at them.

All I want to know is let's generate the money. If we're going to go this route, let's generate enough money to do what we're talking about doing, rather than having a hundred-million dollar hole in the budget, which we will be looking at under the scenario of reducing the amount and in

restricting the advertising. That's what we're building; we're building a deficit if we do this crazy plan.

Chair Harrington: Thank you for your comments. Senator Brown.

Sen. Brown: Thank you, Madam Chairman. Ms. Garland, I know I've tried to look at the history of the lottery, and I think every year but one the projections of what they would generate has been more than, I think, we thought, except for that one particular year, and I think the economy dictates a lot of that, as well. Would you say...I think I would say and I'm just wondering your opinion on this. The way the system is set up now, we do the best we can to project revenues, and if it generates a little more, we've been able to use those in different ways in our education budget. To me that's the prudent way to run this instead of, I guess, pre-spending those dollars on what we think may happen because you never know what the economy could do, or if we go into a recession three months from now I think your projections on these numbers would be a lot different, probably. And so, you know, again, if you spend those dollars on the front end instead of the back end, of which what we've been doing, I think that's the safe way to predict these. I know in business that's surely the way I'd do it because you never know what could happen in the economy. Would you say that's accurate? I mean, you know, if we go into a recession, these numbers aren't accurate anymore.

Chair Harrington: Ms. Garland?

Alice Garland: There are any number of factors that impact sales. We have typically conservatively estimated for our budget. I've said several times that we would much rather overproduce and give you more money than you budgeted than under-produce and have you scrambling to try to figure out how to make up for not getting lottery dollars. We don't want to put you in that situation and we don't want to be in that situation. And fortunately that's proven to work for us.

I will tell you that numbers that we've provided under the 2% scenario are not conservative numbers. They're aggressive numbers. I have an amazingly dedicated staff that likes challenges. We were the fastest lottery start up in the country when we began, and I think we've just had a nice record of strong, steady growth. We believe we can hit that target.

Chair Harrington: Senator Brown, follow-up? Senator Tucker.

Sen. Tucker: Thank you, Madam Chair. Ms. Garland, over here. First of all, I think gambling on teacher raises off a gambling entity is not a good, wise budget decision, but that's neither here nor there. Since the original intent of the lottery was set up, there have been changes in the allocation of those dollars that the General Assembly's made. I remember when I was a county commissioner, 40% of the lottery used to go to retired capital and capital debt for counties. Now it's at 25, so it's changed.

Can you clarify a number for me? Since the lottery started, roughly 37% of the proceeds went back to the State, and that number has consistently reduced down to around 26%. Can you tell me if that is correct and/or what the reason for that is coming from the [lottery]?

Chair Harrington: Ms. Garland?

Alice Garland: Thank you, yes. Yes, Senator Tucker, that is correct. The 2007 Legislature changed our statutes to remove the percentages as mandates and, instead, made them guidelines, and instead directed us to maximize sales in order to maximize revenues, and that's really what we're about. So that percentage doesn't tell the story. It's really the dollars, and that's what we focus on completely is how can we raise more dollars. States that have mandated return at 35% are very low-performing states. And then, in several of those low-performing states the mandate has been removed and their sales skyrocket. So there is a ton of hard, solid data in the lottery industry to show what happens if you mandate a percentage return that's high instead of focusing on the dollar return. And you really, really do want to focus on the dollar return because that's how you can fund programs that you [*need*] to fund.

Chair Harrington: Senator Tucker, follow-up?

Sen. Tucker: Just a follow-up. So you drop the percentage, but the dollars that are going to education have gone up. Is that what you're telling me?

Chair Harrington: Ms. Garland?

Alice Garland: Correct. The dollars have gone up typically four to five percent every year.

Sen. Tucker: So you're saying...

Chair Harrington: Follow-up.

Sen. Tucker: Just one more follow-up, Madam Chair, and I'm done. So by reducing the percentage you've increased the dollars, but if you maintain the same percentage as original intent, we wouldn't be getting even more dollars from the lottery to go to education?

Chair Harrington: Ms. Garland?

Sen. Tucker: Help me with the math.

Alice Garland: You would be getting significantly less. I mean, in fact, there's a very recent audit of the Georgia lottery by the State Auditor that looked at this very question and spoke to dollars versus percentages, and there's...I've got data out of Texas, and I've got data out of California.

The product that we produce...We're a sales and marketing organization and the product we produce, the produce we sell is prizes. And...

Chair Harrington: Senator Tucker, follow-up?

Sen. Tucker: Okay. So just formal clarification, and my sixth-grade math teacher would be mad if I didn't ask this. So if we have...If you're contributing the old way 37% of 105 million and the new way you're contributing 26% of 105 million, how is that more money for education?

Chair Harrington: Ms. Garland?

Alice Garland: We would not produce the 105 if we were returning 35% to education. Players by our games, players buy our tickets because they want to win money. If they have a lesser chance of winning because we are reducing what we put into prizes, they will not buy our tickets. And so we won't...The sales figure will drop considerably, and so you're going to get 35% of a lower sales figure. So the question is you want 35% of a lower figure or do you want 26% of a significantly higher figure?

Chair Harrington: Senator Tucker?

Sen. Tucker: Okay, thank you. That's fine. I just want to share with you that I firmly believe that I've got a better chance of being struck by lightning than Ms. Apodaca winning the lottery.

Chair Harrington: Thank you. Senator Ford.

Sen. Ford: Thank you, Madam Chair. I'd like to get the opinion of Fiscal staff on the presentation from the folks from lottery.

Chair Harrington: We are...That is actually next up.

Sen. Ford: Alright, so are they going to give us their opinion based upon the presentation that we're hearing now?

Chair Harrington: Evan Rodewald, Fiscal?

Evan Rodewald: Thank you, Madam Chairman. Evan Rodewald, Fiscal Research. The finance team of Fiscal Research is working with State Budget to investigate the lottery revenues. They're going to be sending a consensus revenue forecast later this week.

Sen. Ford: Follow-up?

Chair Harrington: Follow-up.

Sen. Ford: So, thank you very much for that clarification. Folks, the jury's still out as it relates to a second opinion, even on the numbers that we're hearing here this morning, so I'm very, very interested in hearing from our own staff about what those look like.

And last comment, Madam Chair. I agree with the comments. It's very, very difficult, in my opinion, to gamble on gambling to pay teachers. To me it's fiscally irresponsible. And I don't know how you get the consistency out of it unless you, ma'am, can share with me with some

certainty that, based upon your financial model, that you will be able to predict these kind of returns on a consistent basis.

Chair Harrington: Thank you, Senator Ford. Senator Robinson.

Sen. Robinson: I had my hand... Thank you, Madam Chair. I had my hand up so long that I really forgot I did it.

Chair Harrington: There are a lot of people in the queue.

Sen. Robinson: Senator Rucho was pulling my attention away talking about Senator Apodaca's wife playing the lottery.

Sen. Rucho: [*inaudible*]

Sen. Robinson: But the question – and I'm not Senator Ford, so I was kind of looking at what we're investing with the operating expenses as opposed to revenues which, you know, gives us that [*net-in*]. On the other end of it, we're investing more than, you know, in terms of the returns. It's not a real great return, and I see what you're saying which supports the fact that we ought not to be gambling with teacher salaries. That's my point.

But I saw an article in the paper in terms of who plays the lottery the most, and do you have statistics on that in terms of who, you know, what segment of the population, or what area...I know it's not Senator Apodaca, but can you tell us who plays the most?

Chair Harrington: Ms. Garland?

Alice Garland: I don't have statistics. What I would like to share is kind of empirical evidence, I guess. Every winner who wins 100,000 or more must come in to our headquarters to receive their winnings. And we interview every one of those folks, and that's anywhere from, you know, three to five people a week. They are a true cross-section of North Carolina. They are doctors, lawyers, accountants, bank executives, engineers, and they are blue-collar workers, they are housewives. I mean, it is a real cross-section. They are in all 100 counties. They cover the gamut and they are North Carolina.

Chair Harrington: Thank you, Ms. Garland. Senator Bryant?

Sen. Bryant: I was trying to get a handle on the restrictions. I presume they are, and maybe this is a question for you, Ms. Garland, or for staff. Are they all covered in pages, I guess, 10 and 11 or so of the special provisions, or are they scattered throughout and could somebody sort of highlight the key components of these restrictions, and then I was going to ask you something about the impact. I just want to know what we're all kind of all talking about. And is 156 just a sort of catch-name for the same items that are in the budget, or is this a separately passed bill? That's the follow-up question, Senator Harrington.

Chair Harrington: Thank you. I'd like to recognize Brian Matteson to give the details of your first question.

Brian Matteson: Thank you, Madam Chair. Over here, straight in front of you, Senator Bryant. Good morning. The items you're looking for in the House budget begin on page 9 in Section 5.2. You'll see below the area in which the lottery funds are appropriated in the House budget there are a series of additional provisions that would govern and make changes to how the lottery may advertise under the House budget. So, you know, Ms. Garland had reviewed those with you in some detail, but you'll find them all in block in that area. It's not identical, I believe, to the House bill that was referred to, but I believe the bulk of that House bill is reflected in the House budget with respect to advertising and changes there.

Chair Harrington: Thank you. Senator Bryant, did you have a follow-up with him, or Ms. Garland?

Sen. Bryant: Yes. I heard you discuss, talk about something about advertising and something. If you could just review with me – I hope it's not at length – one more time what are these restrictions and sort of the impact.

Chair Harrington: Ms. Garland?

Sen. Bryant: For example, I see something about the kind of games you can do, or something. I don't really understand what that really means.

Alice Garland: And I apologize. I don't have that language in front of me, but I think I pretty much have it printed in my head. The language on the games really just captures what we're doing today. We can provide instant games which are the tickets that you scratch off, and draw games which are... Draw games are ones where their numbers are drawn, and that's why we call it a draw game. So that doesn't restrict what we're doing today.

The three main concerns that we have in terms of those restrictions... The first is the language that speaks to if the win is an annuity jackpot that you have to also provide the cash value. We do that everywhere feasible. Where we don't do it is on the billboards and on the jackpot signs. That's the only two places we don't do it. It would be a tremendous expense and create great confusion to the players if we made that change.

The second is the not being allowed to purchase advertising during college athletics. And I'm sure everybody in here realizes that college athletics, I think, in North Carolina really are far more important than professional athletics in terms of TV. And to deny us the opportunity to purchase advertising during that prime TV time would absolutely have an impact and be very expensive to try to replace that with some other purchase.

And then the third is just we believe that the confusion created with having two sets of numbers on billboards and jackpot signs would actually push people from Powerball and Mega Millions and...

Chair Harrington: Thank you, Ms. Garland. Follow-up, Senator Bryant?

Sen. Bryant: Yes. So, in the case of the annuities or payments over a period of time, your concern is not that if the buyer would know the value they would not buy it – it's just the space it takes.

Chair Harrington: Ms. Garland?

Alice Garland: It's the confusion of having two numbers. They're used to a billboard that has one number. And if they're traveling from state to state, they see that some number in South Carolina and Virginia as they see in North Carolina, and all of the sudden there's a billboard with a second box and a second number, and what on earth does that mean, and what's that telling me, and has North Carolina changed the game somehow? I think I'll just go to South Carolina or Virginia.

Sen. Bryant: Follow-up?

Chair Harrington: Thank you. Senator Bryant, follow-up?

Sen. Bryant: Okay. And in terms of your odds, I'm looking at the provisions and you have to state the probability of winning the lowest prize and the largest prize, and how is that different from what you do now when you say what the odds are?

Chair Harrington: Ms. Garland?

Alice Garland: Our current statute requires that we put on everything that we do the overall estimated odds of winning in that game. And so that's what we do because that's what our legislation tells us to do. What this provision would ask us to do is to include the odds of winning the top prize and what's the dollar value of the lowest prize that you can win. After House Bill 156 was introduced, you know, we started looking at how we...what we could go ahead and do, and that was an easy one. We were glad to do that. Had we been asked, we would have done it voluntarily; we were just doing what our statute told us to do. But we already now have on all of our tickets and our point of sale that's in stores, on our how-to-plays the odds of winning that top prize. We have left the overall estimated odds because that's still in our statute.

Chair Harrington: Thank you, Ms. Garland. Follow-up?

Sen. Bryant: And this is to staff. In this section about advertising in sports it says, "in connection with any sport or sporting event." Are those different?

Chair Harrington: Brian Matteson?

Sen. Bryant: I was just curious...in terms of the drafting

Brian Matteson: Madam Chair, Senator Bryant, I'm not in a position to have an opinion on that. Looking across at my colleague, we'd have to talk to an attorney and get back to you on that. We'll do that.

Chair Harrington: Thank you. Thank you, Senator Bryant. Senator Apodaca? (laughter)
Senator Apodaca.

Sen. Apodaca: Thank you, Madam Chairman. Ms. Garland, I was wondering about these Mega Million things. Hasn't that been a real boon to the lottery off large jackpots over the last couple years when Mrs. Apodaca really gets involved the lottery? What kind of money has that brought in?

Chair Harrington: Ms. Garland?

Alice Garland: Well first, I would like to say that Mrs. Apodaca is like a huge number of other North Carolinians that waits for the jackpot to be \$200 million because a measly \$40 million isn't enough.

(laughter)

Chair Harrington: Thank you.

Alice Garland: But yes. And quite frankly, Senator Brown, one of the reasons that we have surpluses is we don't project for the next year those large runs. You can't count on them. We can't predict them. You know, we can have a year where we have three or four of those large runs and have a great year. We can have a year where we have one large run.

But typically...I wish I had a sales chart to show you what happens when that jackpot gets really big. I mean, it's not unusual for us to...I actually can't tell you minute by minute what we do on a normal day. But literally, minute by minute when that jackpot is high, we are selling \$20,000 of tickets a minute – when that jackpot's high. And that's a...I mean, 38% of that...The draw games have a higher return than the instant tickets. Thirty-eight percent of that is going to education.

Chair Harrington: Thank you.

Alice Garland: Those games have been great for us.

Chair Harrington: Thank you, Ms. Garland.

Sen. Apodaca: Madam Chairman, may I...

Chair Harrington: Two more questions from committee. We're trying to get through...

Sen. Apodaca: I want to do a quick follow-up and then make a statement, please.

Chair Harrington: Follow-up.

Sen. Apodaca: Alright. Well, I don't want us to spend a whole lot of time worrying about House Bill 156 no matter where it is or where it was put, and that's just for *[inaudible]*. And so, I don't want Jamie going into labor and I don't want you having a heart attack.

And in finishing up, I think lightning hitting Senator Tucker is probably far greater than about anything I can think of odds-wise happening. It out to probably happen at almost any moment. So thank you.

Chair Harrington: Thank you for your comment. Senator Brock?

Sen. Brock: Thank you, Madam Chair. You know, we're looking at advertising, you're looking at when the jockpot's do get that high, you have your *[earned]* media where it's leading off a new story every night. So when you're looking at actually sales advertising is that the media's doing more of it for you than what you're putting in. So your numbers are...I think you're misinterpreting the numbers wrong.

But, you know, the question I have on this one, and regardless of what Senator Apodaca said about the bill, looking at our information that worked to make the decision on the lottery *[when]* we created you in the middle of the night...The information we got on House Bill 156 that it would be no impact. Do you talk to...And I know they're coming up next, but did you – the Lottery Commission – talk to our Research staff to give us this information that said it would be no net impact. You said the number...This is this year, but last year you said you didn't have the numbers; now you do. Can you walk me through the dialogue you had with them...

Chair Harrington: Ms. Garland?

Alice Garland: We were not consulted when that fiscal note was put together. In Fiscal 13 when I spoke in the House Judiciary Committee, I laid out what I thought the fiscal impact would be. And my legislative liaison and I met with Representative Stam and we told him what we thought the fiscal impact would be. So...

Sen. Brock: So...

Chair Harrington: Follow-up.

Sen. Brock: Follow-up?

Alice Garland: ...it was not for a lack of our expressing what we thought would happen.

Sen. Brock: Follow-up?

Chair Harrington: Follow-up.

Sen. Brock: What were your numbers?

Alice Garland: Similar to what you see now. I mean I...I don't have them with me, but they haven't changed very much.

Sen. Brock: Can you provide me...

Chair Harrington: Follow-up.

Sen. Brock: Can you provide me with that documentation that you gave to Representative Stam?

Alice Garland: We talked to him verbally. I did not hand him a document.

Chair Harrington: Thank you, Ms. Garland. We very much appreciate you sharing your time with the Committee and answer all the questions. Thank you. Next we have Brian Matteson from the Fiscal Research Division...

(55:36)

State Lotteries in America

State Lotteries in America

Harvard University Press
Cambridge, Massachusetts
London, England
1989

Library
State Legislative Building
Raleigh, N. C.

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Beyond this kind of routine coverage, states have been energetic in staging sometimes extravagant media events to publicize the launching of new lotteries. The publicity effort of the California lottery is illustrative. In the final days before its inauguration, the director visited all of the media markets in the state and made himself available for interviews. The kickoff itself was marked by extravaganzas in four cities, featuring balloons, fireworks, celebrities, and marching bands. The lottery followed up in the early months of operation with a publicity program to feed information on winners to local newspapers.⁵¹ Similarly, the Missouri lottery spent \$400,000 on opening-day activities, including hot air balloons, fireworks, and a laser show.⁵²

Lottery Advertising

Advertising—promotional messages paid for by the seller—is undoubtedly the most visible form of promotion engaged in by state lotteries. In addition to the familiar television and radio spots, states use newspaper and magazine ads, billboards, posters, and so-called point-of-sale displays in retail stores. Television takes the largest share of lottery advertising budgets, as it does in most industries. In 1988 television accounted for an estimated 57 percent of budgets allocated to specific media. Radio had the next largest share, with 16 percent, followed by point-of-sale ads (11 percent), print ads (7 percent), and transit signs and billboards (5 percent).⁵³ Because of the lottery's unique position among state agencies, lottery advertising has become one of the most widespread forms of information disseminated by state governments. For better or worse, most state citizens see lottery ads far more often than virtually any other message put out by the state. A survey completed in 1986 showed that 92 percent of adults in Arizona had seen lottery ads on television.⁵⁴ The Maryland survey summarized in Figure 10.1 shows that those most likely to be aware of lottery ads are young adults, blacks, television watchers, and those who play the lottery. Because lottery advertising has become a ubiquitous part of state government, it is useful to examine its role as a marketing tool and the messages it contains.

Amount of Advertising

Before we consider the nature and use of lottery advertising, let us get a sense of the quantity of that advertising. We know that lottery agencies advertise, but how much in comparison to other comparable goods and services? One simple way to answer that question is to calculate the agencies' advertising expenditures as a percentage of their total costs of production (prizes plus administrative expenses). Advertising budgets are occasionally tabulated in trade publications and listed in annual reports. But it is not clear to what

extent the salaries of in-house marketing and public relations personnel included in such figures. Nor do advertising budgets reflect the value of time for nightly drawings traded by television stations in exchange for boost in audience.⁵⁵ In our survey of lottery agencies we found that a major of agencies paid nothing to have their drawings televised.

Subject to these important qualifications, Table 10.2 shows that lottery agencies devote about 2 percent of their costs to budgeted advertising expenditures. For the sake of comparison the table also gives information on American corporations' advertising as a percentage of all business expenses. For all corporations the comparable figure was 1.1 percent, about half the ratio for lotteries. Manufacturing and retail industries also spend less than lotteries. Perhaps the closest comparison is offered by amusement and recreation services at 3 percent, and public utilities, which operate under similar conditions of monopoly, at 0.6 percent. Among corporations in comparable industries, therefore, only amusement and recreation services have a higher rate of budgeted advertising expenditure. If the value of traded television time were added, lotteries might well exceed that industry's percentage to

Table 10.2. Advertising as a percentage of business expenses for lotteries and selected industries

Type of enterprise	Advertising as percentage of
Lotteries, 1988	Prizes plus operating expenses
United States	2.0%
Canada	2.2
U.S. corporations, 1984	Total expenses ^a
All industries	1.1%
Manufacturing	1.5
Retail trade	1.7
Amusement and recreation services	3.0
Transportation and public utilities	0.6

Sources: For lotteries, *Gaming and Wagering Business* 9 (September 1988), 32 (1988 sales and advertising); 9 (October 1988), 30 (1988 government revenue for U.S. lotteries); Table 2.3 (1987 ratio of government revenue to sales for Canadian lotteries). Prizes plus operating expenses calculated as sales minus government revenue from sales. For corporations, U.S. Internal Revenue Service, *Statistics of Income, 1984: Corporate Income Tax Returns* (Washington, D.C.: Government Printing Office, 1987), table 2, p. 23ff., figures for active corporations.

a. Total expenses are total business deductions, including taxes other than corporate income tax.

Another way of comparing advertising figures is to use data based on expenditures on various media rather than total advertising budgets. In 1984 lotteries in ten of the largest states placed ads in television, radio, newspapers, magazines, and outdoor signs worth an estimated \$23 million, or about 27 cents per capita. By contrast, the per capita advertising figures for some of the most heavily advertised consumer products were roughly ten times as great (for example, beer at \$2.43 and domestic passenger cars at \$2.86).⁵⁶ But comparisons such as these ignore the extensive free publicity given to lottery drawings. In Detroit the state's weekly lotto drawing had a remarkable 30 percent share of the television market.⁵⁷ If one looks instead at government and political advertising for comparison, in 1984 lotteries were advertised on a per capita basis about half as much as all federal programs put together, but more than the combined Reagan and Mondale presidential campaigns (16 cents).⁵⁸

Such national data may obscure advertising by governments on the state level, so it is useful to compare the amount of lottery advertising to that of other messages state government presents. The data in Table 10.3 are based on records of television advertising in major metropolitan markets. The amount of advertising by state government agencies—including lotteries—

Table 10.3. Lottery share of total television advertising by state agencies, selected television markets

State	Television market	Percentage of all state advertisements devoted to lotteries
California	Los Angeles	100%
Illinois	Chicago	93
Massachusetts	Boston	100
Michigan	Detroit	77
New Jersey	Philadelphia and New York City	38
New York	New York City	47
Ohio	Cleveland	100
Pennsylvania	Philadelphia	61
Average		74%

Source: Calculated from unpublished surveys of advertising by Broadcast Advertisers Reports, Inc., "Brand Schedules by Parent Company," for the broadcast months of January 1987 (Boston, Detroit, and Cleveland) and October 1986 (other listed cities).

was measured for eight markets. Five of the eight states were running emotional advertising during the sample months; in the other three the television advertising done by the state was for the lottery. Taken together, the time devoted to lottery ads was about three-fourths the total amount of state advertising. Undoubtedly states communicate messages to their citizens in other ways, but at least as far as television is concerned, a major component of that communication is in the form of enticements to play lottery games.

Within the overall category of lottery advertising it is obvious that various lottery products do not receive equal exposure. Lotto games, which accounted for about 40 percent of U.S. lottery sales in 1988, received the same share of lottery advertising allocated to individual games (33 percent). But instant games, owing to the practice of constantly introducing new games, consume proportionally higher levels of advertising. While instant games brought in only 26 percent of sales in 1988, they accounted for 40 percent of the advertising attributable to specific games. By contrast daily number games were allocated only 10 percent of advertising, much less than their 10 percent share of sales.⁵⁹ In this respect the legal numbers game is surely the "cash cow" of state lottery games.

Timing of Ads

As with any consumer product, advertisements for lottery products are designed for maximum impact on sales. Two distinct approaches to the timing of lottery advertising are evident. The first is "front-loading," which calls for concentrating advertising at the introduction of a game. An illustration is the case of the SuperLotto game, introduced in 1986. The media plan developed to introduce this game called for a three-part campaign. First, a "teaser" campaign of about two weeks would "create awareness and stimulate excitement." This introductory blitz, intended "to firmly implant the creative message, and as generate maximum awareness and repeat exposures," would follow with a high concentration of ads. The final phase was to be essentially a maintenance dose emphasizing the size of jackpots, a factor identified as important to players. Expenditures during the intensive introduction were to be three times those allotted to the maintenance phase. With instant games the advertising approach usually manifests itself in bursts of advertising every eight to ten weeks at the beginning of each new game. For example, Massachusetts allocated most of an instant game's advertising budget on thirty-second spots when the game is introduced and the remainder on ten-second spots.⁶⁰

The second approach to timing advertising, and one that may be used in conjunction with front-loading, is to schedule advertisements to coincide with p

and the typically high levels of consumer spending that accompany them; thus the reference to "purchase cycles" in Iowa's statement of marketing objectives. Using this approach Washington succeeded in "saturating the airwaves every other Thursday and Friday" in promoting their instant games.⁶¹ The advertising plan for Ohio's SuperLotto game was very plain:

Schedule heavier media weight during those times of the month where consumer disposable income peaks. In general, schedule heavier media weight during the traditional pay periods of the first and fifteenth of each month. We recommend that promotional "pushes" be targeted as early as possible in the month. Government benefits[,] payroll and Social Security payments are released on the first Tuesday of each calendar month. This, in effect, creates millions of additional, non-taxable dollars in the local economies of which the majority is disposable.⁶²

In order to discover to what extent plans such as these are manifested in the actual pattern of advertising, we studied the timing patterns of televised lottery advertisements in eight sample markets, using unpublished data based on round-the-clock monitoring. Stations in these markets carried ads for all eight state lotteries during the sample months. One pattern that was examined was the distribution of ads by day of the week. Any "pulsing" throughout the week might have been expected to correspond to paydays, usually Fridays, or to days on which lotto drawings occur, usually Wednesdays and Saturdays. In addition, since many bets are placed on Monday for the entire week, that day might be a reasonable time for concentrating ads. In fact, no one pattern was followed by all the states. In two relatively more ads appeared on Monday. Two others emphasized Wednesday, and two others Saturday. Taken together, the eight states tended to concentrate their ads at the end of the week, as shown in Figure 10.2. Sundays received by far the least advertising, with rates about three-fourths the average. The data provided no evidence of other systematic timing patterns, however. In particular, there appears to be no systematic attempt to time ads to correspond to specific days other than around Fridays.

Content of Advertising

After they have done their research, positioned their products, and identified their potential customers, what messages do the lottery marketers use in their advertising? In order to study the themes, we gathered a sampling of ads from various states. Requests were sent to seventeen of the largest lottery states and the District of Columbia. Thirteen of those lotteries or their advertising agencies responded, and 282 advertisements, not counting dupli-

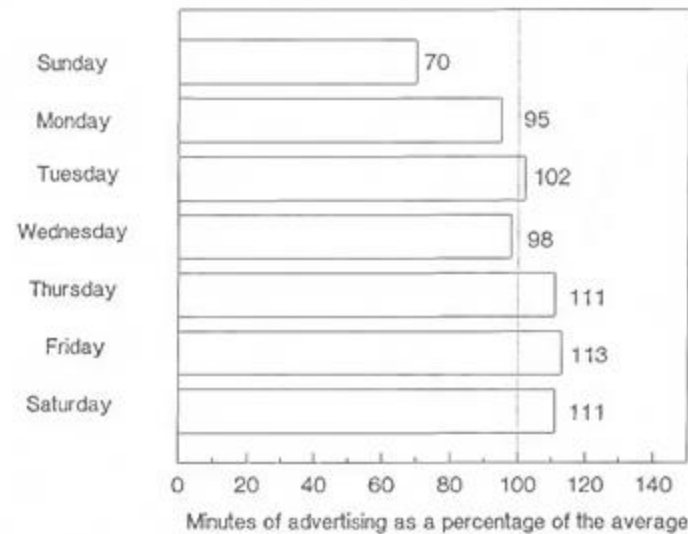


Figure 10.2. Distribution of lottery ads by day of the week

(Source: Broadcast Advertisers Reports, "Brand Schedules by Par Company," broadcast months of October 1986 and January 1987, unpublished tables provided by Broadcast Advertisers Reports, Inc.)

cates, were collected.⁶³ Television ads accounted for 36 percent of the sales, below their 54 percent share of lottery ad budgets. Radio accounted for 17 percent of the ads, which approximated that medium's 17 percent share of lottery ad budgets.⁶⁴ We classified the ads by medium and principal message. Where more than one theme appeared, a judgment was made about the primary message. Information contained in the ads about prizes and the odds of winning was also noted.

Information. Table 10.4 summarizes the content of this sample of lottery advertisements. Eight primary messages were identified, four of them informational and the rest basically thematic in character. Informational messages included announcements of a new lottery or lottery game ("Coming soon: a new angle on fun," from California's introduction of lotto), and direct appeals to buy tickets ("Watch it grow! Play Lotto 6/49," also from California), including the traditional incentives of free samples and coupons. Ads of this sort accounted for 40 percent of the ads in the column labeled "other media" (including newspaper, point-of-sale, and billboard advertising). Information about the rules of the game, prize structure, and odds of winning was carried in the media but was concentrated in brochures. Virtually all the brochures in the sample gave information about the games as their primary message.

Table 10.4. Content of lottery advertising

Primary message	Percentage of total advertisements in—			
	Television (N = 101)	Radio (N = 50)	Brochure (N = 36)	Other ^a (N = 95)
Informational				
Direct sales appeal ^b	13%	18%	11%	43%
How to play	5	14	83	16
Previous winners	1	2	0	5
Public benefits; where the revenue goes	4	0	0	12
Thematic				
Fun, excitement of playing	15	6	3	2
You could win; winning could change your life	33	24	3	18
Wealth, elegance	2	10	0	0
Jackpot growing; money	28	26	0	4
Total	100	100	100	100
Information on odds	12	12	72	13
Information on prize amounts	51	46	81	53

Source: Samples of advertisements collected from thirteen state lotteries, 1987.

a. Billboards, posters, point-of-sale displays, and newspaper and magazine ads.

b. Introductory, play the game, coupon, free tickets, and gift suggestion.

although a number of them also urged people to play the game or mentioned the benefits to the state. Over 40 percent of the ads in the sample contained some information about how to play a lottery game. A few ads were designed to tell about former winners, with most giving their names and the amounts they had won. One memorable print ad from California used a winner's story to suggest a method for picking lotto numbers: it pictured numbered jerseys from various sports along with an explanation of how one sports fan had won the jackpot by using the numbers of six of his sports heroes.

Although many ads did feature a reminder of where the lottery revenue goes, only a few were devoted solely to that purpose. Maryland, though, put

out a series of ads detailing some of the benefits resulting from lottery revenues, featuring services as diverse as the state education fund and a child abuse program. One of the most dramatic of these was a television commercial depicting a little boy wandering away from his family's campsite in the woods. In the gathering darkness the frightened boy wanders through the woods, crying for his mother and father while the worried parents describe their search to police officers. A state police helicopter spots the boy with a searchlight and a voice-over points out that the state lottery contributed \$300 million in funds for public service, part of which was set aside for this police helicopter. As a sobbing mother is notified that her son is safe, the ad intones: "The Maryland State Lottery pays off in ways you may not even know about." The striking was this ad that it gained notoriety both in and out of the state. According to the state budget examiner's report, the ad has been criticized as "misleading gimmickry that does not articulate the impact of Lottery revenues on the State Treasury."⁶⁵ The ad's subsequent screening for Virginia legislators apparently built support for restrictions on advertising in that state.

Although our tabulation of primary messages does not reflect the content of many of the ads in the sample used generic or institutional themes, including slogans designed especially for that state's lottery, often referring to the special use to which lottery revenues are put. In most cases such themes are not the primary message of ads, so they do not appear in the tabulation, although they do seem to be an integral part of the lottery's total marketing strategy. Some slogans contribute generally to a "feeling good" statement about the lottery as an institution: "It's working for Arizona" and "Thanks to the lottery, everybody wins" (District of Columbia).⁶⁷ Others refer more specifically to the public uses for lottery funds: "Lottery proceeds benefit Ohio schools" ("Our schools win, too" (California), and "Benefits senior citizens" (Pennsylvania). Apparently there are marketing advantages to be gained from communicating a lottery's funding purpose. Lottery marketing research suggests, for example, that such ads appeal especially to those who might otherwise oppose or be unfamiliar with gambling—the inner-directed types. A marketing strategist from Scientific Games states: "In Colorado, the revenues were earmarked for parks and recreation. We found that the inner-directed groups participated much more in Colorado because they felt that by buying a ticket, they were making a meaningful contribution to the state. A Colorado man we interviewed said: 'When I buy a lottery ticket, I feel like I win either way.'"⁶⁸ To emphasize the worthy purposes to which lottery revenues are put, at least two states have featured their governors in televised lottery ads.⁶⁹

Thematic ads. Most lottery advertising on television and radio consists of both serious messages and the hard sell. Like current advertising of consumer products, the typical lottery ad uses humor and soft-sell techniques. The

they add a heavy dose of fantasy. Although one can identify several dominant themes in this advertising, it seems clear that the best lottery ads, like the best ads for other products, are meant to convey some of their most important messages with subtlety and indirection. Thus a California television spot showing a rural storekeeper putting up the lottery logo, with his dog on the porch and a school bus reflected in the window, evokes images of a wholesome America. Similar themes in ads for consumer products are thought to speak to the traditional values of Belongers.⁷⁰ Other ads based on fantasies of wealth and a transformed life may appeal to Emulator and Achiever groups.

It was possible to identify several themes in this advertising. First is that playing the game is in itself fun and exciting. Massachusetts named its first weekly lottery in 1972 *The Game* to highlight the aspect of fun.⁷¹ In Maryland emphasis on the fun of playing has been a hallmark of television and radio advertising.⁷² An Arizona radio campaign also touted the fun of its games, proclaiming in song, "It's the Pick / It's a Kick / Come in and try your luck / You can't buy more excitement for a buck." The theme of excitement is suggested by spies in District of Columbia ads and in Washington State by a motorcyclist who rides his bike out of airplanes for a thrill, when he discovers that the lottery offers excitement with better odds. Part of the reason for this emphasis on fun appears to be a desire to dispel unsavory connotations associated with gambling, particularly illegal gambling.

A second theme is the dual message that anyone can win and that winning can change your life. A Michigan television spot begins with a man saying he has a better chance of being struck by lightning than winning the lottery. Sure enough, a lightning bolt hits him, after which he says, "One ticket, please." An Oregon ad shows an elderly man sitting in front of a general store muttering that nobody ever wins the Oregon lottery. In the space of thirty seconds three winners emerge from the store, after which he goes in to buy a ticket.⁷³

The ads embellish this theme by giving graphic examples of how winning can transform one's life. The District of Columbia ran a series of before-and-after ads that exemplify this appeal. In one such print ad the "before" picture shows a bedraggled man, face covered with stubble, hair matted down, wearing glasses and sloppy clothes. In the "after" picture he is clean shaven, well groomed, wearing a tuxedo but no glasses, conspicuously holding a copy of a theater program. The ad proclaims, "Just One Ticket . . . and It Could Happen to You." A radio spot from Washington State is a musical testimonial from a successful lotto player: "And now I walk the streets of paradise / Just like the fella on 'Miami Vice.'" A Michigan ad showing a woman running through her office after she had won advises, "Of course, you're going to have to figure out what you're going to tell your boss."

Closely related are ads that bypass the process of winning altogether to

focus on the wealth and luxury that are the reward of successful lottery play. A California television commercial for an instant game called *The Good Life* touts the advantages of wealth with images of an elegantly dressed couple dancing, a woman walking expensive dogs, a red carpet being unrolled, and a couple on a yacht. A Michigan ad puts it simply: "The rich. Join them."

A fourth group of thematic ads builds on the fantasy of winning by focusing on the money itself. Ads show coins being minted, gold bars being stamped, or armored cars delivering vast sums of cash. One popular image is the bank vault. A series of television ads in Michigan show a vault in a science-fiction setting with the money inside throbbing and growing out of control. Oregon based one series of ads on the trials and tribulations of "Bob," the official whose job it is to count the lotto jackpot. Poor Bob never gets out of the vault because the prizes are so immense that he can never stop counting. These ads reinforce the message that prizes consist of money, and lots of it, lottery ads often mention the size of a game's top prize. Half of the ads we saw mentioned a specific sum.

This characterization of advertising content is necessarily incomplete, based as it is on a relatively small sample and an imprecise classification of dominant messages. Hardest to quantify are the repeated appeals to fantasy. While numerous ads portrayed wealth, leisure, and gracious living, others appealed to the taste for excitement, romance, and fame. Other fantasies were more prosaic. One California ad showed a series of dreams that winning might make possible, from a carefree retirement to establishing a father-son business. Another aspect worth noting is the tendency for ads to portray winners in some surroundings and people who are younger and more affluent than the typical lottery player. Not only may this tendency be an attempt to recruit new players, but it also appears to reflect the effort by marketers, first noted by Vance Packard, to build into products the traits consumers would like to see in themselves.⁷⁴

Evidently some of the brightest talent in product marketing has been employed by the state lotteries in their efforts to sell more tickets. The advertisements produced for this purpose are among the most clever and appealing shown on television today. But it is perhaps as useful to make note of what is omitted from these ads as to discuss what they contain.

Do Lottery Ads Mislead?

Critics have charged that lottery advertising systematically gives short shrift to certain details about the games. Take, for example, the statement of the jackpot available for a given lotto drawing. As we have seen, these grand prizes are typically paid out over a twenty-year period, but the stated p

is the simple sum of the payments, not the present value, which might be only about half as large. Some critics have urged agencies to make clear that a prize of such magnitude will be awarded only if there is a single winner; otherwise the prize money will be divided. Still another criticism of current practice is that agencies do not emphasize that such jackpots are subject to federal and sometimes state income taxation.⁷⁵ The result of these practices, say critics, is a consistent overstatement of the true value of prizes.

But the practice that has raised the most objection is the lotteries' presentation of odds. John G. Cross, who has noted the difficulty of obtaining the necessary information to calculate a statistic as basic as the payout rate, charges lottery agencies with systematic "obfuscation."⁷⁶ A state commission studying the Illinois lottery also concluded that information on odds was difficult to obtain.⁷⁷ These criticisms would apply to the advertisements examined in the present study. Among the ads we looked at, statements about the odds of winning or the payout rate were conspicuous by their absence. For example, only 20 percent of all the ads in the sample gave any information on the odds of winning, and this figure drops to 12 percent for the two most prominent media, television and radio. Where such information was given, it usually applied to the probability of winning any prize, as opposed to the grand prize. In contrast, over half the advertisements in the sample mentioned the dollar amount of prizes—almost always the grand prize. Bolstering this emphasis on prizes over probabilities, the ads give a distorted impression of the probability of winning with their frequent portrayal of players who have won large prizes. Two-thirds of the television ads in the sample that showed any past or present lottery players showed at least one who was a winner. For all the media represented in the sample this ratio was over 70 percent.

In their defense lottery officials argue that there is not enough time in most radio and television ads to give much information on odds or prize structures.⁷⁸ In Missouri, where a statement including the payout rate and a disclaimer was required by law, the message merely flashed on the screen. Some states do require prominent statements of prize structures, the odds of winning, or payout rates. Whether or not elaborate statements of odds are feasible, it is instructive to note that in the case of sweepstakes under the jurisdiction of the Federal Trade Commission advertising must disclose the odds of winning all prizes as well as other facts about the games.⁷⁹ Applying these standards to lottery advertising would necessitate a dramatic shift in current industry practice.⁸⁰

Combined with the themes of wealth, excitement, and transformation that run through the ads, the emphasis on winning makes for compelling copy. Consider this print ad from Oregon:

PLAY MEGABUCKS NOW
AND YOU COULD BE A WINNER
THIS SATURDAY NIGHT.

Imagine this.

You pick up a Megabucks play slip now.

Choose 6 of the 42 numbers available.

(Or ask for "Quick Pick" and let the machine pick 'em for you.)

Then, on Saturday night, you sit down to watch the Megabucks show.

Your ticket is clutched tightly in your hand.

The numbers are picked.

Your numbers!

And suddenly, your life has changed.

Suddenly, you're rich.

Could it happen?

Absolutely!

But, you have to do more than just imagine.

You have to play.⁸¹

What are the consequences of this kind of advertising? While no one can be sure, it seems likely that all this attention to prizes and winning at the expense of information on the odds (1 in 5.2 million in the case of the ad cited) increases players' "subjective probability" of winning. As Amos Tversky and Daniel Kahneman argue, the perceived probability of a very unlikely event tends to be increased by tangible examples of the event.⁸² Extensive coverage of winners and dramatized examples of winning coupled with virtual absence of information on the probability of winning a grand prize are these are the essential ingredients in lottery promotion. Whether or not they lead to misperceptions that increase the demand for tickets, they hardly represent a balanced description of lottery games.

Lottery Advertising and the Inducement to Gamble

Lottery advertising presents a policy dilemma because the objective of revenue maximization conflicts with the widespread distaste for encouraging people to gamble. As we have seen, increasing lottery revenues requires either the recruitment of new customers or the stimulation of betting among existing customers. But blatant inducements to gamble, like inducements to drink or smoke, are commonly seen as offensive, if not unethical. In its 1981 code of conduct the National Association of Broadcasters stated that advertising legal lotteries was acceptable "provided such advertising does not

duly exhort the public to bet."⁸³ Several states have attempted to restrict lottery advertising. Laws passed in Missouri, Virginia, and Wisconsin all include limitations on the kinds of ads that may be run, forbidding ads that "induce" people to play the lottery. In addition, Missouri originally required a disclaimer to appear in all ads ("This message is for informational and educational purposes only. It is not intended to induce any person to participate in the lottery or purchase a lottery ticket"), but this requirement was dropped in 1988 after several years of disappointing sales.

What does inducement consist of? One answer was given by the broadcasting industry in 1975 when the National Association of Broadcasters refined its earlier admonition against "undue exhortation" by spelling out what kinds of lottery advertising were and were not acceptable. It stated that lottery ads could present such basic information as how the lottery works, the cost of tickets, prize distributions, winning numbers, and factual information about actual winners. As to what was not acceptable practice, the code was explicit:

In order to avoid approaches which do, or have the capacity to, unduly exhort people to bet, commercials for legalized lotteries may not:

1. Indicate what fictitious winners may do, hope to do or have done with their winnings.
2. Use unqualified or inaccurate language regarding potential winners/winnings. (e.g., "There's a pot of gold for those who buy lottery tickets"; "Buy a ticket and be a winner.")
3. Utilize approaches which praise people who buy lottery tickets or denigrate people who do not buy tickets.⁸⁴

Although the entire broadcasting code has subsequently been struck down as anticompetitive, these standards are revealing as a direct statement of industry mores. Given the numerous lottery advertisements demonstrating the changes in one's life that winning could make possible and the occasional lighthearted jabs made at nonplayers, it is clear that lottery advertisers feel no obligation to adhere to such standards.

Conclusion

Lottery products are marketed in much the same way as hundreds of other consumer products. Some ads are primarily informational, but most are whimsical, or humorous "soft-sell" presentations that are thematic rather than precisely factual. Winning and fantasies associated with winning play an important part in this advertising, while information on the odds of winning is less conspicuous. One possible if unproven effect of this advertising

policy is that consumers' perceptions of the chance of winning might be systematically distorted. Another possible effect is an undermining of the credibility of state government in general. Michael Schudson has argued that much advertising is characterized by "persistent, underlying bad faith."⁸⁵ To the extent that the puffery that is taken for granted in commercial advertising becomes a part of government messages, the credibility of government in other areas may be damaged as well. And to the extent that lottery advertising fails to come up to standards of disclosure that apply to commercial sweepstakes, the likelihood of skepticism about the aims of government increases.

It has now become conventional wisdom that a lottery must market aggressively to be a "success."⁸⁶ This assertion raises at least two questions: how to define success and how to determine the impact of advertising on that measure. If one adopts the view implicit in the lottery policy of most states that success is judged purely in terms of net revenues, the question becomes simply what effect advertising has on lottery sales. Unfortunately there is as yet no evidence that can satisfactorily answer that question, although it seems likely that advertising can increase the demand for lottery products. In light of the possibly undesirable effects of lottery advertising, however, an argument certainly exists for considering more than the lottery's net revenues in assessing the amount and nature of lottery advertising.

House Bill 156: Honest Lottery Act

House Bill 156 requires the North Carolina State Lottery Commission to adhere to the following advertising requirements:

- Advertising that states a total of payments to be paid over a period of time must also state the present value of the prize.
- Advertising that states the probability of winning a prize must not omit the value of the lowest prize to be won.
- When stating the odds of winning a prize the advertisement, at a minimum, must include the odds of winning the prize with the largest value.
- Advertising or sponsorship of the NCEL in connection with any high school or collegiate sport or sporting event is prohibited.
- Advertisements must not refer to the role of accountants or auditors.

Lastly the bill asks that the University of North Carolina develop material and teaching methods that explain the probabilities and other mathematical aspects of a lottery game. This information will be available as a component of high school courses in mathematics and civics.

How is the North Carolina Education Lottery Currently Advertising?

- The North Carolina State Lottery Act did little to regulate the tactics used to advertise the lottery. It did not ensure completely *honest* advertising.
- Although advertisements were required to include the overall odds of winning a prize, there was no requirement that advertisements match the odds to the prize. For example, the disclaimer in a NCEL ad just last year read, “Approximate odds of winning are 1 in 3.9,” but, only advertised the top prize of 200,000. While the overall probability of winning any amount of money, from \$5 to \$200,000, may be 1 in 3.90, the probability of winning the top prize may only be *1 in 800,000*.
- The Lottery Act also did not require advertisements to include the lowest prize to be won. Consequently, advertisements only mentioned the largest prize to be won. As a result of the leniency regarding advertising standards, the NCEL is inducing people to engage in the lottery by advertising the largest prize amount along with the overall odds of winning (the smallest ratio) in order to smokescreen the near *impossible odds* of winning the top prize

- The Lottery Act did not require advertisements to include the present value of a prize that is paid out over a period of time. For example, the headline of a recent 2012 TV advertisement read, “Jackpots Start at \$40 MILLION,” which is the amount received if the winner chooses to take the prize received over twenty years instead of the lump sum. There is no mention of the amount the player receives if the player chooses to take the lump sum; the lump sum being a significantly lower amount and the *true value* of the prize.

Why Should the General Assembly Improve the Advertising Standards for the North Carolina Education Lottery?

- The state of New Jersey compiled a study in 1988 and found, “[an annuity system of lottery payment] would be considered fair if it were not for the fact that only one person in twenty even has the remotest idea of what an annuity is.” An annuity is a payment system in which the amount the annuity is worth is paid out over a number of years.¹³
- Lottery advertisements overstate the true value of winning a jackpot by failing to communicate that if winners choose to receive their winnings over a twenty year period then their earnings are subject to the possibility of *the value of the dollar decreasing over time* (inflation). In addition, a lottery winner would receive less interest on their money if they chose the lump sum payment than if they chose to receive an annuity.¹⁴
- Lottery advertisements overstate the true value of the prize because they do not account for the amount of the prize that will be lost after taxes are taken out.¹⁵
- State Lotteries are not held to the same advertising standards as private gambling institutions. For example, the Federal Trade Commission mandates that commercial sweepstakes provide the *probabilities of winning various prizes* for a game.¹⁶

¹³ Alan J. Karcher, *Lotteries* (New Brunswick: Transactional Publishers, 1989), 44

¹⁴ Joshua Wolf Shenk, “Everyone’s A Loser,” *Washington Monthly*, 1995.

¹⁵ Charles T. Clotfelter and Philip J. Cook, *Selling Lotteries: State Lotteries in America* (Cambridge: Harvard University Press, 1989), 209.

¹⁶ Charles T. Clotfelter, Philip J. Cook, Julie A. Edell, and Marian Moore, “State Lotteries at the Turn of the Century: Report to the National Gambling Impact Study Commission,” (1999): 8, accessed March 25, 2013, <http://www3.nd.edu/~jstiver/FIN360/lottery.pdf>.

- James M. Stearns and Shaheen Borna found that omitting objective information about the actual value of a lottery ticket is *deceptive* and that more complete information would allow lottery players to make more *informed decisions*.¹⁷
- Charles T. Clotfelter and Philip J. Cook found that lottery advertising that excludes information about the probability of winning a top prize distorts consumers' perception of winning.¹⁸

Academic Support for Lottery Advertising Requirements

- “What are the Consequences of this kind of advertising? While no one can be sure, it seems likely that all attention to prizes and winning at the expense of information on the odds...increases players' ‘subjective probability’ of winning. [T]he virtual absence of information on the probability of winning a grand prize-these are the essential ingredients in lottery promotion...One possible if unproven effect of this lottery advertising policy is that consumers' perception of the chance of winning might be systematically distorted. Another possible effect is an undermining of the credibility of the state government in general.”¹⁹
- “The results of this research demonstrate that the value of a lottery ticket is relevant to lottery players because their intentions to buy changed when such information was present...Based on the behavioral intentions results of this research, the omission is ‘serious’ in that fewer tickets would be sold under most conditions if expected values were known...This research presents some evidence that more understandable, complete information might allow those who play the lottery to make more informed decisions. Lotteries, therefore, should publish expected value information for a reasonable sampling of payoff level...”²⁰
- “Whether or not elaborate statements of odds are feasible, it is instructive to note that in the case of sweepstakes under the jurisdiction of the Federal Trade Commission advertising must disclose the odds of winning all prizes as well as other facts about the game.

¹⁷ James M. Stearns and Shaheen Borna, “The Ethics of Lottery Advertising: Issues and Evidence,” *Journal of Business Ethics* 14, no. 1 (1995): 50, accessed March 25, 2013, <http://www.jstor.org/stable/25072621>.

¹⁸ Charles T. Clotfelter and Philip J. Cook, *Selling Lotteries: State Lotteries in America* (Cambridge: Harvard University Press, 1989), 211-12.

¹⁹ Charles T. Clotfelter and Philip J. Cook, *Selling Lotteries: State Lotteries in America* (Cambridge: Harvard University Press, 1989), 210-12.

²⁰ James M. Stearns and Shaheen Borna, “The Ethics of Lottery Advertising: Issues and Evidence,” *Journal of Business Ethics* 14, no. 1 (1995): 49-50, accessed March 25, 2013, <http://www.jstor.org/stable/25072621>.

Applying these standards to lottery advertising would necessitate a dramatic shift in current industry practice.”²¹

- Research shows “that simply providing information may reduce the effects of error on decision making (Fischhoff 1984, 1995). For example, Arkes, Dawes, and Christensen (1986) find that merely providing people about probability information improves performance in a prediction task. Fong, Krantz, and Nisbett (1986) show that training decision makers about expected values and simple statistics also leads to more accurate predictions. Therefore, providing information that counters misconceptions regarding lottery play decisions may reduce or eliminate those misconceptions and their associated effects on intended or actual lottery play.”²²
- “Assume once again that \$2 million dollars are wagered in order to create an alleged million-dollar jackpot. The state, instead of paying out the million dollars, must make installments of fifty thousand per year...If the winner were to receive the actual jackpot, steps could be taken by the winner to protect their winnings from further tax obligations by investment in exempt bonds...[A]t the end of the twenty years, the winner would have the redemption value of the bonds...[T]he effects of inflation is never mentioned by states...The cost of an annuity that will pay its owner \$50,000 per year for the next twenty years was, in spring of 1988, less than \$500,000. The winning player prevailed over odds that were indeed one in a million, yet the real value of his win is substantially less than what the odds warranted. The annual payment method lost its justification years ago, but the cynicism that pervades the lottery system continues to triumph, and again, it is a matter of what the market will bear.”²³

²¹ Charles T. Clotfelter and Philip J. Cook, *Selling Lotteries: State Lotteries in America* (Cambridge: Harvard University Press, 1989), 209.

²² Anthony D. Miyazaki, Anne M. Brumbaugh, and David E. Sprott, “Promoting and Countering Consumer Misconceptions of Random Events: The Case of Perceived Control and State-Sponsored Lotteries 20, no. 2 (2001): 255, accessed March 25, 2013, <http://www.jstor.org/stable/30000592>.

²³ Alan J. Karcher, *Lotteries* (New Brunswick: Transaction Publishers, 1989), 44-5.

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Do Lotteries Hurt the Poor? Well, Yes and No

A Summary of Testimony Given to the House Select Committee on a State Lottery,
April 19, 2000

Charles T. Clotfelter
Duke University

April 28, 2000

Harry Truman once remarked that he would like to have a one-armed economist, since the economists advising him often gave two-sided explanations beginning with, “On the one hand....” When I spoke to the House Select Committee on April 19, I felt I was giving the same kind of answer. Furthermore, I don’t think the two-sided aspect of my message got through to everyone, judging at least by the next day’s *News and Observer* headline (April 20, p. 4A): “Lottery aims at poor people, professor tells panel.” Therefore, I am happy to respond to the staff’s request that I provide a written version of my remarks. As I stated at the hearing, my views are based on years of research on state lotteries, most of that in collaboration with my Duke colleague Philip Cook. I begin by summarizing what is known about patterns of lottery spending.

Who Plays Lotteries?

As a result of many household surveys over the years, including the national survey completed by the National Opinion Research Organization (NORC) in 1999 for the National

Gambling Impact Study Commission, we know several general facts about the pattern of lottery play in the United States. About 60 percent of adults in lottery states play at least once a year. In terms of amount of money bet, men play more than women, and those in middle age play more than the youngest or the oldest adults.¹ The bulk of attention in policy discussions has concerned the relationship between lottery purchases and income. Most of the studies that I have seen -- and Philip Cook and I reviewed a large number of them in our book, *Selling Hope: State Lotteries in America* (Harvard University Press, 1989) -- yield the following conclusion: average sales do not vary systematically by income. That is, taking averages over all adults, both players and nonplayers, those in lower income brackets tend to spend roughly the same number of dollars a year as those in middle and upper income brackets. Some studies show that the amount increases somewhat with income, while other studies indicate that the amount declines with income. But in

virtually every case we have examined, one conclusion is constant: *lower-income individuals spend a higher percentage of their income than those in middle and upper income brackets*. This fact does not by itself make lotteries a good thing or a bad thing. It only means that lotteries tend to have a particular pattern of consumption, which is unlike, for example, the pattern of expenditures for brie or Chablis, commodities the expenditures for which tend to increase as a percentage of income in upper income brackets. Instead, the relationship of lottery purchases to income looks more like those of chicken wings or barbeque, items for which lower income households tend to spend a larger share of their income than those who are more affluent.

It is important to stress that this observation about lottery purchases is drawn entirely from empirical observations of actual spending patterns. Therefore it is appropriate, as Ed Stanek, Director of the Iowa Lottery, did when he spoke to the Select Committee, to raise questions about the reliability of empirical studies examining these spending patterns. I base my conclusions about patterns of purchases on numerous studies, such as those summarized in our book, as well as three more recent studies that I mentioned in my presentation. One of these is our report to the National Gambling Impact Study Commission, which used data from the NORC survey. There are areas of uncertainty about how to interpret the results of that survey. We made judgements, which we spelled out in our report, so that those who might disagree would see exactly what we did and could redo things if they disagreed. That is fair game in the academic world, and we are happy to have such things questioned and debated. I take exception, however, to the reference in Mr. Stanek's remarks to our "own biases and beliefs." I think any fair reading of our published work and statements will show an evenhanded attempt to produce objective research with supportable conclusions.

That said, I should add that my remarks regarding spending patterns were based not just on the NORC study, but two other studies as well.² One of those studies was undertaken by the Virginia Lottery. I attach tables based on that report which spell out the details of my calculations. I also attach graphs that show the percentage of income spent on three types of games.. Each of the studies shows that the percentage of income spent on lotteries declines as income increases. Mr. Stanek, by the way, cited three studies that "show that increasing number of tickets are purchased by people with increasing incomes." I asked him if I could have copies of them. Unfortunately, he reported that one of the studies (for his state of Iowa) is proprietary and nothing but the results could be released. He sent me one study, for Minnesota, but, in contrast to our study for the National Gambling Impact Study Commission or the calculations I present here

based on the Virginia Lottery report, it contained no documentation to show how the numbers had been calculated.³ He has promised to send a third, for Texas, but I have not seen it. Despite their lack of documentation, I did rough calculations based on the two reports he sent me. The Iowa figures do not imply a smooth decline in percent of income spent, though the percentage does decline above \$25,000 and the income class spending the lowest percentage is the top income class. The Minnesota figures in fact imply a continual decline in percentage of income, exactly in line with the conclusion we have found in our research.

I remain quite open to the possibility that a different pattern of lottery consumption might exist, or exist under certain circumstances or in some areas. Anyone wishing to know what the distributional impact of lottery finance would want to know about this pattern because information of this sort is central to one's conclusion about that distributional impact. However, based on the information that is in the public realm, I see no reason as yet to doubt earlier studies on this question.

To repeat, therefore: *lower-income individuals spend a higher percentage of their income on lottery purchases than those in middle and upper income brackets.*

Do Lotteries “Prey” upon the Poor?

The original outline for the April 19 hearing posed the question, “Do lotteries ‘prey’ upon the poor?” Does the conclusion written above in italics imply this? Not if you take as your definition of “prey” what my *Webster’s* says, “to plunder, pillage, rob; to make profit from a victim by swindling.” Like those who sell other consumer products, state lotteries do engage in what is called “target marketing,” that is, pitching their message to likely players. So in one sense it is true that the poor are “the lottery’s targets,” in the words of the *News and Observer’s* editorial writer (April 23, 2000, p. 26A). But it would not be rational for them to go after the poor exclusively. The primary goal of state lotteries is to maximize their net revenues, so they are simply doing what any business wishing to sell, for example, more chicken wings or barbeque would do. This means aiming their advertising and other marketing differently than if they were trying to sell a product whose sales were more highly concentrated in middle or upper income brackets.

Six Propositions about a State Lottery

Given its pattern of consumption, what then can be said about lotteries as an activity of government? Let me suggest six propositions.

1. While some people will surely suffer, most of those who play a lottery will be made better off simply by its legalization. Most people who play lottery games do not win, but that does not make the activity of playing any more “wasteful” or irrational than, say, playing video games, eating candy bars, or attending a hockey game. They play because they evidently get something out of it. This could explain why most opinion polls show that a majority of citizens would like to have a state lottery.

2. Among those who would be worse off would be “problem gamblers,” some of whom will have serious financial problems as a result, and those who find the existence of a lottery and its advertising to be offensive. Make no mistake about it: there will be some social costs associated with a state lottery. This is the reason some states require funds to be set aside for programs dealing with gambling addiction, or why some states place limits on the amount or nature of advertising.

3. By taking a high profit rate from the sale of lottery tickets, the state would be placing a very high “implicit tax” on lottery purchases. For each dollar bet, the average state lottery pays 55 cents in prizes, spends 12 cents on retailer commissions and other operating costs, which leaves 33 cents for the state. Philip Cook and I call this an “implicit tax” because it has exactly the same effect as a tax on lottery expenditures. If it were an excise tax, it would amount to a 50 percent tax on the cost of operating the lottery (67 cents), making it much higher than the excise taxes we place on alcohol or tobacco products.

4. Since lower income people spend more in proportion to their incomes than those with middle and upper incomes, they will tend to benefit more from playing a North Carolina lottery. Although no one can be certain how large the benefits of playing are, economists are inclined to look at people’s own behavior and assume that those who play the most will get the most enjoyment out of it. To be sure, this approach applies to consumers who are not addicted and who have a pretty good idea of the odds and the prize structure.

5. The implicit tax contained in lottery finance is regressive. Just as a regressive tax is defined as one whose percentage of income is highest for those at low incomes levels, the implicit

tax in lotteries, no matter what the rate, is regressive. By placing a high implicit tax on lottery purchases, a state in effect makes its revenue structure more regressive than it would be if the implicit tax on lotteries were in line with other tax rates. Thus the same lower income people who benefit from the lottery's legalization could benefit even more if the implicit tax on the lottery were in line with taxes on other taxed products, such as alcohol and tobacco.

6. Through heavy marketing of lottery products, states compound this burden on lower income citizens and increase the social cost to problem gamblers and those who find state-sponsored gambling distasteful.

High Implicit Tax Rates and Heavy Marketing are Optional, Not Necessary

Although virtually every state lottery in the U.S. features both high implicit tax rates and heavy marketing of lottery products, a state-run lottery need not have either of them. But without both of them, the lottery is unlikely to generate the kinds of revenues that proponents are hoping for.

Table 1
Lottery Play, by Income Level, Virginia, 1997

Income Class	Average Income ^a	% of All Adults ^b	No. of Adults in VA (000s) ^d	% of all Scratch Expenditures ^b	Amount of Scratch Sales* (\$M) ^c	% of all Pick 3,4 Expenditures ^b	Amount of Pick 3,4 Sales* (\$M) ^c	% of All Lotto/Cash5** Expenditures ^b	Amount of Lotto/Cash5** Sales* (\$M) ^c
LT \$15,000	\$7,515	15.0	779	18.0	47.57	23.0	71.51	16.0	37.64
\$15-25,000	\$19,927	16.0	831	18.0	47.57	21.0	65.29	15.0	35.28
\$25-50,000	\$36,160	40.0	2,078	45.0	118.92	36.0	111.93	39.0	91.74
Over \$50,000	\$104,266	30.0	1,558	19.0	50.21	20.0	62.18	30.0	70.57

Notes: * Sales totals multiplied by .88 to account for estimated 12% out-of-state sales.

**Totals also include Big Game multi-state lotto.

a. Hollenbeck, Scott and Maureen Keenan Kahr. (1999). "Individual Income Tax Returns, 1997: Early Tax Estimates", *SOI Bulletin* Winter 1998-99, Table 2, p. 140; author's calculations.

b. Virginia Lottery. (1997) *Who Plays the Lottery*, Richmond, VA: Virginia Lottery, p. 3.

c. *International Gaming & Wagering Business*. (1998). "Worldwide Lottery Sales," June, 1998, p. 49.

d. U.S. Bureau of the Census (2000). 1990 to 1999 Annual Time Series of State Population Estimates By Single Year of Age and Sex. Downloaded from www.census.gov/population/www/estimates/st-99-10.html April 27, 2000.

Table 2
Percent of Average Income Used to Play Lottery-Virginia 1997

Income Class	Average Income ^a	Scratch Sales, as % of Average Income ^b	Pick 3,4 Sales, as % of Average Income ^b	Lotto/Cash5* Sales, as % of Average Income ^b
LT \$15,000	\$7,515	0.81	1.22	0.64
\$15-25,000	\$19,927	0.29	0.39	0.21
\$25-50,000	\$36,160	0.16	0.15	0.12
Over \$50,000	\$104,266	0.03	0.04	0.04

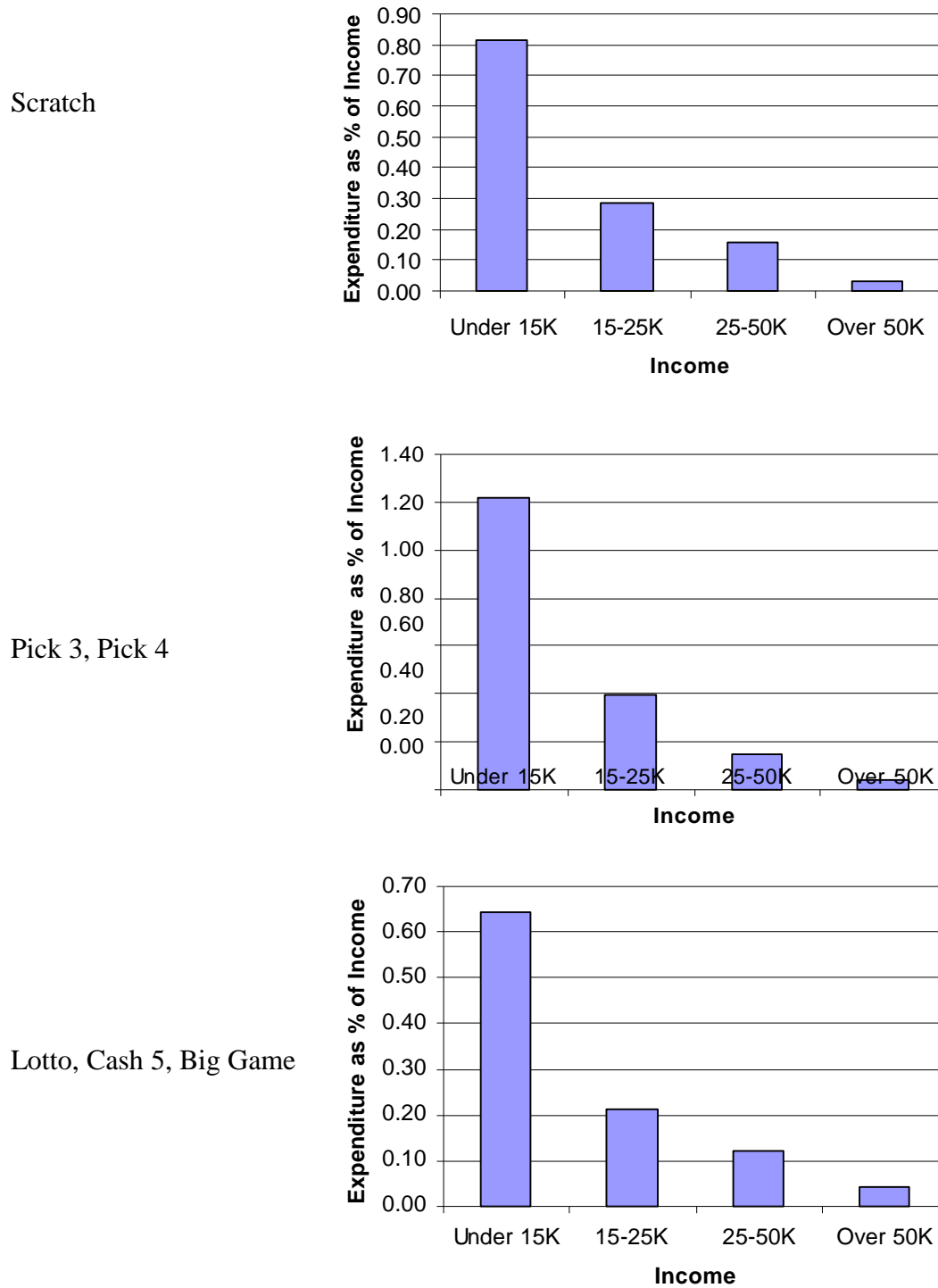
Notes:*Calculations also include Big Game multi-state lotto sales.

a. Hollenbeck, Scott and Maureen Keenan Kahr. (1999). "Individual Income Tax Returns, 1997: Early Tax Estimates", *SOI Bulletin* Winter 1998-99, Table 2, p. 140.

b. Calculations using sources a-d, Table 1. Amount of sales divided by number of adults, all as a percentage of average income.

Figure 1

Lottery Purchases as a Percentage of Income, Three Types of Games, Virginia, 1997



1 UNITED STATES OF AMERICA

2

Notes

1. See Charles T. Clotfelter, Philip J. Cook, Julie A. Edell, and Marian Moore, "State Lotteries at the Turn of the Century: Report to the National Gambling Impact Study Commission," June 1999.
2. Christopher Cornwell and David B. Mustard, "The Distributional Impacts of Lottery- Funded Merit Based Aid," unpublished paper, University of Georgia, November 1999; and Virginia Lottery, *Who Plays the Lottery*, 1997 (Richmond, VA: Virginia Lottery), based on a consumer tracking survey conducted by Chilton Research Services, covering 9,600 Virginians, over the period September 2, 1996 and July 27, 1997.
3. Minnesota State Lottery, *Gambling in Minnesota: Who? What? Where?* February, 1994, Figure 14, p. 18.

1 UNITED STATES OF AMERICA

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5 NATIONAL GAMBLING IMPACT STUDY COMMISSION

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9 MEETING

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13 Friday, March 19, 1999

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16 The Commission met at the Center for Strategic and
17 International Studies, 1800 K Street, N.W., Washington, D.C., at
18 8:30 a.m., Kay C. James, Chairperson, presiding.

19
20 PRESENT:

21 KAY C. JAMES, Chairperson
22 WILLIAM A. BIBLE, Commissioner
23 JAMES C. DOBSON, Commissioner
24 J. TERRENCE LANNI, Commissioner
25 ROBERT W. LOESCHER, Commissioner
26 LEO T. MCCARTHY, Commissioner
27 PAUL H. MOORE, Commissioner
28 JOHN W. WILHELM, Commissioner

3	Presentation by Dr. Phillip Cook	3
4		
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1 And so the question is: well, given that lotteries are
2 here to stay, then is there only one way to run one of these
3 lotteries or could we think about some alternatives?

4 Most of the lotteries in this country, maybe all of the
5 state lotteries fit under the category that we call the revenue
6 lottery where the mission either explicit or implicit is to make
7 as much money as possible for the state treasury. In some cases
8 the authorizing legislation charges them with that objective.

9 Very often lottery directors will say that that's what
10 they're trying to do, that they pride themselves on being
11 businesslike and on maximizing profit for the state. They
12 struggle to be allowed to act like a business rather than a state
13 agency as much as possible, and they have gotten a great deal of
14 freedom in that respect.

15 The features of the revenue lottery are that there is a
16 low payout rate or a high implicit tax, and the other thing is
17 that there's heavy promotion, as we have seen here, and other
18 kinds of marketing. So a very systematic approach to product
19 design, to advertising, to outlets, and all the rest of it.

20 The second possibility for a lottery is what we
21 describe as the assumptuary lottery, and the mission of
22 assumptuary lottery if we were to invent one would be to satisfy
23 what the British call unstimulated demand. This, in fact, was
24 the guiding term in terms of British gambling policy for many
25 years, and so the idea was, sure, you have casinos and other
26 kinds of games in Britain, but they're supposed to be understated
27 in the British tradition and not to be encouraging people to
28 participate.

1 So the assumptuary lottery would be the equivalent of
2 the state liquor store at least in many states, including North
3 Carolina, or something that we call the lottery in the plain
4 brown wrapper. So it's just there. Take it or leave it.
5 There's no particular effort here to foist it on people who
6 wouldn't otherwise want it.

7 And so among the characteristics might be no promotion,
8 limited product line, certainly limits on the number and kinds of
9 outlets, you know, crabby clerks and the whole business, much as
10 you might get in a state liquor store, and the tax rate
11 presumably would remain high in that.

12 And then the third vision that we had or the third
13 model that we had was what we call the consumer lottery, and the
14 consumer lottery takes a different view. It says, well, it seems
15 to be a notion here that the lottery is innocuous. It's fun.
16 It's something the public likes to play. Why don't we embrace
17 that view and take a new approach, which is to say that the
18 purpose of the lottery is not to make money for the state so much
19 as it is to satisfy a reasonable interest on the part of the
20 public in gambling in this fashion, and the state is providing a
21 service to the public just like it does with its community
22 college service system or its state parks. It should provide
23 that service to the public. If the public wants to gamble, give
24 them a chance to gamble, and make it as attractive as possible.

25 So the object then is to serve the public rather than
26 to exploit the public in the consumer lottery with no guilt about
27 what you're doing, and in that case presumably you would knock
28 down this very high tax rate, which is to say increase the payout
29 rate, maybe limited advertising. That's debatable. Certainly

1 allow new products to creep in as attractive products are
2 invented. Provide convenient outlets and all the rest of it.

3 So that would be quite different. This kind of
4 customer service vision of a lottery would be yet another view of
5 things.

6 But as I say, what we actually have in this country is
7 one after another revenue lottery where whatever is said at the
8 time of adoption, why people vote for these lotteries at the time
9 of a referendum, in fact the way that they're run, is to get as
10 much money as possible for state programs.

11 The only exception to that is that there have been
12 states that have adopted some of the views of assumptuary
13 lottery. That is, for example, in Virginia and Wisconsin and a
14 couple of others, there has been restrictions on advertising, and
15 there has been some discussion and in some cases political
16 opposition to introducing, say, keno or to introducing video
17 lottery games on the grounds that that is more risky. It risks
18 more problem gambling than traditional forms, and so those have
19 been stopped politically.

20 So that's what we have now, is primarily the revenue
21 lottery with some elements of assumptuary lottery creeping in in
22 some places, and the consumer lottery has yet to surface.

23 That's my remarks, and I'll be happy to answer any
24 questions.

25 COMMISSIONER WILHELM: Dr. Cook, I found not only your
26 work specifically for the Commission, but especially this
27 report, extremely helpful, and I appreciate that.

28 And I should say by way of preface that personally I'm
29 not a lottery fan. On the other hand, it seems to me that if

1 we're going to make recommendations about the lottery, which
2 we're charged to do, that we ought to make sure that the
3 recommendations that we make have a sound foundation.

4 I appreciated your pointing out to us that at one point
5 in your presentation you were switching from your professional
6 expertise to your expertise as a citizen. I think both kinds of
7 expertise are perfectly valid.

8 This first observation is not really addressed to you,
9 in particular, because it's fairly common. You made reference to
10 gambling as a vice, and you said there are a lot of groups --
11 that was the term you used -- in society that support view of
12 gambling. Obviously, you're right. There are a lot of groups
13 that say that.

14 One of our colleagues on the Commission recently
15 circulated a piece of paper that said that it was very important
16 that we define gambling as a vice. There wasn't any particular
17 foundation for that, but of course, it was his opinion, and it's
18 a perfectly valid personal opinion.

19 But as I read polls on this subject, I don't believe
20 the American people as a whole look upon gambling as a vice
21 except in those cases where people engage in excessive gambling
22 and have a negative impact.

23 So I think that to the extent the Commission is going
24 to try to have a solid foundation for what it does, that we've
25 got to be careful of sort of personal opinions like that and not
26 get them confused with something that has a foundation of some
27 kind either in public opinion or in science.

28 And flowing from that, you made the observation that
29 lotteries are a lousy bet. That was your phrase, and I

1 understand that. I don't personally play the lottery, and as I
2 said, I'm not fan or supporter of the lottery, but I would like
3 to know what your response is to the finding in the NORC poll,
4 and you made reference to it in your paper, that actually people
5 think the odds are worse than they really are.

6 I was, frankly, startled by that, but the more I think
7 about it, the more it makes sense because I have always believed
8 just as a personal opinion -- I don't have science for this
9 either -- that the American people as a whole are not stupid, and
10 if that poll is right, people don't really need to be told how
11 bad the odds are because actually they think the odds are a lot
12 worse, and yet they participate anyway.

13 What do you make of that?

14 DR. COOK: Okay. So two questions, one about what's
15 the actual or scientific grounds for labeling gambling a vice. I
16 mean, I think that's a matter of history and simply observation.
17 You know, if you look back, many of the classic texts -- we
18 included Chaucer, for example, The Canterbury Tales talking about
19 it's a waste of time and money and certainly labeled as a vice.

20 More recently we have the vice squads of our big cities
21 being concerned with eliminating the numbers games on the
22 streets, and so that I think that, you know, of course it has
23 been viewed as a vice. The fact that a majority currently is
24 comfortable with the lottery is neither here nor there. I'm not
25 saying anything about the majority, but merely about a
26 traditional view that continues to be fervently held by a group
27 of people, albeit a minority, just as a minority fervently
28 opposes abortion and a number of other things.

1 I don't think you can settle this issue on the basis of
2 public opinion polls. Let me just say for myself I'm not
3 particularly concerned about it, and I play the lottery from time
4 to time. I don't see it as an issue, but where I get
5 uncomfortable is when the state crosses the line to active
6 promotion of this activity.

7 And just as I would be uncomfortable with them actively
8 encouraging people to drink alcohol, and I think that it's the
9 same basic situation, the same basic set-up. Most of the public
10 drinks alcohol. The majority does. The percentages are quite
11 similar to the percentages that play the lottery, and folks are
12 fairly comfortable with moderate drinking, but I think they would
13 be uncomfortable with a state agency, the ABC or whatever it is,
14 getting into the business of active promotion, saying, you know,
15 you really should convert from being a weekend drinker to an
16 everyday drinker or that you really should try to branch out in
17 the kind of drinking you're doing so that instead of just
18 drinking beer, why don't you also drink whiskey with that beer,
19 and so on.

20 It's the difference between the public agency which
21 carries the notion of the public interest behind it, a
22 presumption of a group that is supposed to be supporting the
23 public interest, and taken seriously in a way that Madison Avenue
24 ordinarily is not taken seriously. That is the distinction here
25 and the distinction that I care about.

"The Government as a Predator: A Troubling New Role in Troubled Economies"

by Robert Goodman

Excerpt from Chapter 8 of *The Luck Business*

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This could be your ticket out.

-An Illinois State Lottery billboard

in a low-income Chicago neighborhood

The proliferation of legalized gambling in America is probably the only example of a situation where government is not simply legalizing a potentially harmful situation, but is actually promoting it. As Chapter 4 demonstrated, governments did not decide to allow new gambling ventures in response to rising popular demands for more gambling. This is not, for example, like the repeal of Prohibition, where governments found itself responding to a popular political movement to legalize the business of producing and selling liquor.

In the case of gambling, it is the government which is explicitly trying to get people to participate more, through advertisements, media promotions, and public relations campaigns. It is the government which is expanding the availability of more addictive forms of gambling like electronic gambling machines. The result is a dangerous shift in the fundamental role of government-- from regulator of gambling to promoter of gambling.

Governments are getting regulations designed to protect the public, spending millions on promotions and advertisements, and in some cases even subsidizing private gambling enterprises. In the process, they are also recruiting millions of people into gambling who have never gambled before.

This stands in stark contrast to the role of government, especially since the 1930's, as a protector of citizens through a host of laws and regulations designed to protect workplace conditions, health and safety, environment, civil rights, and so forth. In sponsoring more gambling, governments do not even require accurate social and economic impact statements about their expansion plans, the way they do in the case of potential environmental impacts of an expanding industry or the construction of a new highway.

In this new promotional role, the government finds itself in a strange and contradictory position which makes it difficult to carry out its role of protecting the public. While it once regulated gambling in order to guard against gambling operators who might take advantage of its citizens, the government's own growing dependence on gambling revenues puts pressure on state officials to increase advertising and relax regulations. A 1986 New Jersey Governor's Advisory Commission observing what happened in Atlantic City put it simply: "The more entrenched is gambling in the budget process, then the more successful the industry may be in causing the relaxation of regulatory policies and procedures with which they do not agree."

As far back as the 1950s, politicians argued that by legalizing gambling, governments would capture money that was already being bet illegally, eliminate the role of organized crime, and ensure that players weren't being cheated. Yet criminals never promoted their gambling operations the way governments now do with multi-million dollar advertising campaigns, public relations efforts, focus group research, and penetration studies. "No matter what you do for a living," says a Massachusetts Lottery advertisement, "there's an easier way to make money." And in contrast to the ventures of organized crime, government-supported gambling is given extensive free publicity through newspaper and TV stories about incredible jackpots, happy winners, and transformed lives.

The State as Dream Merchant

From a psychological perspective, people's ability to dream and to hope for a better life can be a very healthy and useful human attribute. It helps them persevere under difficult circumstances, and it can motivate people to change and improve their lives. But by enticing people to spend their money on fantasies, governments are preying on people's ability to dream and hope. Rather than providing real hope for economic improvement, public officials are promoting the illusion of economic improvement-- becoming deeply involved in finding new ways of manipulating people's desire for a more secure future. They are enticing people into taking part in what should properly be called the "pathology of hope." When a government agency, like the New York State Lottery, says its players "whimsical fantasies" are being given "the hope of fulfillment" or that its gambling products offer people a chance to dream of paying off their debts or to dream about paying for their children's education, then governments have gotten themselves into playing a new and very dangerous role.

By 1994, state lotteries were spending over \$350 million a year to advertise their products. In 1991, the California Lottery had become the largest purchaser of advertising in Los Angeles County. Gregory Ziemak, Director of the Kansas Lottery and the former director of the Connecticut State Lottery, reflected on government's schizophrenia of trying to both regulate and promote gambling. In his Connecticut job, Ziemak says, he was criticized by some legislators and community leaders for his advertisements. "They said just the fact that you're advertising the lottery is wrong." But the bottom line of keeping his job ultimately depended on

pleasing politicians who were judging him by the revenues he generated. "My success or failure," he said, "was how sales were. Were sales better than last year, or were they worse?"

One of the most effective publicity techniques to promote more lottery play, according to Ziemak, was getting the media to produce stories about the winners. "People see a picture of a Lotto winner in the paper," said Ziemak, "You know he's a guy like you; he works in the shop, he has kids, he's going to use the money to put the kids through college. You say, 'You know maybe I could win'." When some winners shun this publicity, lottery officials find ways of persuading them. According to Ziemak:

What we tell the winners is, look you won \$5 million, that's news. It's public information whether you agree to talk to the press, or allow us to release it to the press, we're still going to release your name, your town, and the amount won. And if we do that the press might call you because you're not saying anything. Sometimes they get more interested. What we suggest you do, is go downstairs and talk to them.

Government promotion of its gambling products not only persuades people to gamble at legal operations, but, according to William Jahoda, a former gambling operator for organized crime in Chicago, also benefits illegal ventures. "[Public] agency marketing and media advertising blitzes promoting gambling," he told the Chicago Gaming Commission, give people the perception that gambling is a "healthy entertainment." Jahoda characterized the public officials involved in promoting government gambling ventures as "our unwitting front men and silent partner."

Manipulating Psychological Needs

In finding new ways to stimulate more demand for their gambling products, government officials have become increasingly adept at manipulating player behavior through the use of sophisticated market research analysis, consumer surveys, penetration studies, and focus groups. They continuously monitor player attitudes and behaviors in order to design new sales pitches which are closely attuned to people's psychological needs and fears. One Massachusetts Lottery television ad focused on a real fear of many hard-core players-- that they won't play their number on the day it finally comes up. In the staged commercial, a newsman attempts to interview a number of distraught players who would have won on the day they forgot to play. Lance Dodes, the operator of a Massachusetts treatment center for problem gamblers, described such government-promoted ads as ones which lead to more problem gambling. "[Players] are terrified not to play their number," he explained, "and the Lottery preys on those fears."

Despite this obvious manipulation, in 1991 Jim Hosker, Kentucky's lottery director, said that lottery players tend to absolve government of responsibility for their losses. Since people know they are playing against enormous odds, he said, they tend to blame themselves and not the state when they lose. Their psychological reaction, according to Hosker, is, "I didn't pick the right numbers."

The goal of lottery advertising is not only to increase the amount of money that people gamble, but also to increase the number of people who gamble-- what those who market gambling call "expanding the player base." To accomplish this, lottery managers are constantly trying to find new ways of getting people to shift their spending away from other consumer products and services and into gambling at lotteries. As the marketing director of a Canadian lottery said, "We believe any promotion that can alter the regular purchasing habits of the consumer is viewed as significantly benefiting our long-term success."

According to Jim Davey, a former Oregon State Lottery director, "We're a market-driven organization and I mean we're going to go out and expand this business." The way to increase sales, according to Davey and other lottery

managers, is to constantly change games. "Offer something that looks new," said Davey, who later became president of Automated Wagering International, an electronic gambling machine manufacturer. "At Christmas we do Holiday Cash. With Lucky Stars we play on people's astrological signs. We find that if you run two or three, four or five games at the same time, you'll sell more tickets."

The late Ralph Batch, director of several state lotteries and a pioneer in the industry, once described lotteries as "living things." "They have to be massaged," said Batch, "to retain the excitement of the public." The Director of Kentucky's lottery said his tickets needed to be aggressively marketed just like other consumer products. "You've got to come up with the 'Improved Ivory Snow' and the 'New and Improved Ivory Snow.' We've got to change the product. People get sick of anything." Eric Turner, executive director of the Massachusetts Lottery, similarly said his lottery's games must be advertised like other consumer products-- "People get tired of them over time," said Turner. In 1994, he predicted that if his agency was forced to eliminate its advertising budget, revenues could go down as much as 20 percent.

The Difficulties of Expanding the Gambling Market

But by the late 1980s lottery officials discovered that in spite of large expenditures for advertising and free publicity about winners of mega-jackpots, it was still difficult to generate ever-increasing amounts of betting. For most people gambling at unskilled games like lotteries is not inherently interesting. What does make this kind of gambling attractive is the possibility of winning money. High levels of play could only be maintained by state lotteries through aggressive advertising, and the continued infusion of higher jackpots, more frequent drawings, and new games. These enterprises have also come to depend on a small group of people spending larger amounts of money on the games. Nationally, by 1992, only 15 to 20 percent of lottery players accounted for about 70 to 80 percent of all sales.

When a lottery is initially introduced, it will typically bring a state vast amounts of new money in the first few year-- sometimes increasing revenues from 30 to 50 percent in a single year. But this initial euphoric rise is usually followed by much slower sales increases-- typically in the yearly range of 3 percent. According to Deloitte and Touche, an economic analysis and accounting firm that prepares studies for the gambling industry, lottery games tend to have "rapid product life cycle curves, approaching maturity quickly." Players become bored with these games and those who play for long periods get tired of not winning and stop playing. "The most successful lotteries," they reported, "counter life cycle maturity by changing the product mix, altering the product, and, in large part through marketing, providing the customer with a greater perception of value."

Lottery directors in the early 1990s, complaining of increased competition for the consumer's discretionary dollars, needed to find more innovative ways to expand their revenues. Jerry R. Crandall, Commissioner of the Michigan Lottery, told a group of gambling industry executives in 1992 that lotteries no longer had their "uniqueness and mystique," and that lottery agencies and their advertising agencies were having to work much harder than ever for any sales increases.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013

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HOUSE BILL 156
Committee Substitute Favorable 3/14/13
Third Edition Engrossed 4/11/13

Short Title: Honest Lottery Act.

(Public)

Sponsors:

Referred to:

February 27, 2013

A BILL TO BE ENTITLED
AN ACT TO PROVIDE FOR HONESTY IN ADVERTISING AND MARKETING OF THE
NORTH CAROLINA STATE LOTTERY.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 18C-114(a)(2) reads as rewritten:

"§ 18C-114. Powers and duties of the Commission.

(a) The Commission shall have the following powers and duties:

...

(2) To prescribe the nature of lottery advertising which shall comply with the following:

- a. All advertising shall include resources for responsible ~~gaming~~ gambling information.
- b. No advertising may intentionally target specific groups or economic classes.
- c. No advertising may be misleading, unfair, deceptive, or present any lottery game as a means of relieving any person's financial or personal difficulties.
- d. No advertising may have the primary purpose of inducing persons to participate in the Lottery.
- e. Advertising which states a total of payments to be paid over a period of time shall state the present value of the prize.
- f. Advertising which states the probability of winning a prize shall not omit the value of the lowest prize to be won.
- g. Advertising which states the odds of winning a prize must, at a minimum, disclose the odds of winning the prize with the largest value.
- h. No advertising or sponsorship may take place in connection with any high school or collegiate sport or high school or collegiate sporting event."

SECTION 1.5. G.S. 18C-115 of the General Statutes reads as rewritten:

31 **"§ 18C-115. Reports.**

32 (a) Reports on Operation of the Commission. – The Commission shall send quarterly
33 and annual reports on the operations of the Commission to the Governor, State Treasurer, ~~the~~
34 ~~Lottery Oversight Committee~~, and to the General Assembly. The reports shall include complete

H156-v-3

1 statements of lottery revenues, prize disbursements, expenses, net revenues, and all other
2 financial transactions involving lottery funds, including the occurrence of any audit.

3 (b) Disclosure of Proceeds from Lottery Funding. – Each State department or agency
4 receiving lottery funds shall use its established communications channels to inform the public
5 about amounts received and activities supported by lottery proceeds."

6 **SECTION 2.** G.S. 18C-130 reads as rewritten:

7 "**§ 18C-130. Types of lottery games; lottery games and lottery advertising; certain**
8 **disclosures and information to be provided.**

9 (a) Unless the General Assembly approves, the Commission may use only draw-style
10 games and instant scratch-off games as types of lottery games.~~The Commission shall determine~~
11 ~~the types of lottery games that may be used in the Lottery. Games may include instant lotteries,~~
12 ~~online games, games played on computer terminals or other devices, and other games~~
13 ~~traditional to a lottery or that have been conducted by any other state government-operated~~
14 ~~lottery.~~

15 (b) In lottery games using tickets, each ticket in a particular game shall have printed on
16 it a unique number distinguishing it from every other ticket in that lottery game and an
17 abbreviated form of the game-play rules, including resources for responsible ~~gaming~~gambling
18 information. In lottery games using tickets, ~~each no~~ ticket may have printed on it a depiction of
19 one or more cartoon ~~characters.~~characters, ~~whose primary appeal is not to minors.~~ In lottery
20 games using tickets with preprinted winners, the overall estimated odds of winning prizes shall
21 be printed on each ticket. No name or photograph of a current or former elected official shall
22 appear on the tickets of any lottery game.

23 (c) In games using electronic computer terminals or other devices to play lottery games,
24 no coins or currency shall be dispensed to players from those electronic computer terminals or
25 devices.

26 (d) No games shall be based on the outcome of a particular sporting event or on the
27 results of a series of sporting events.

28 (e) Lottery advertising shall be tastefully designed and presented in a manner to
29 minimize the appeal of lottery games to minors. The use ~~of cartoon characters or~~ of false,
30 misleading, unfair, or deceptive information in lottery advertising is prohibited and shall
31 constitute an unfair and deceptive trade practice under G.S. 75-1.1.~~All advertising promoting~~
32 ~~the sale of lottery tickets or shares for a particular game shall include the actual or estimated~~
33 ~~overall odds of winning the game.~~

34 (f) The Commission shall make available on its Web site a detailed tabulation of the
35 estimated number of prizes of each particular prize denomination that are expected to be
36 awarded in each lottery game ~~or and~~ the estimated odds of winning ~~these prizes each prize~~

at
37 the time that lottery game is offered for sale to the public.

38 (g) The Commission shall, in consultation with the Department of Health and Human
39 Services, develop and provide information to the public about gambling addiction and
40 treatment.

41 (h) The University of North Carolina shall develop and make available to the
42 Department of Public Instruction course and professional development materials explaining the
43 probabilities and other mathematical features of a lottery game for inclusion as a component of
44 high school courses in civics and mathematics. The University of North Carolina shall also
45 make available those same materials to the Office of Non-Public Education in the Department
46 of Administration to be available to other schools.

47 (i) The University of North Carolina shall commission or perform research on patterns
48 of:

49 (1) Lottery participation as to frequency, amounts spent, family income levels,
50 and other socioeconomic factors.

1 (2) Lottery ticket sales locations in comparison to the frequency, amounts spent,
2 family income levels, and other socioeconomic factors of the neighborhoods.
3 The University of North Carolina shall make such research available to the Legislative
4 Research Commission."

5 **SECTION 3.** G.S. 18C-132(a) reads as rewritten:

6 "(a) If a lottery game uses a daily or less frequent drawing of winning numbers, a
7 drawing among entries including second chance drawings where the value of the prize is five
8 thousand dollars (\$5,000) or more, or a drawing among finalists, all of the following conditions
9 shall be met:

- 10 (1) The drawings shall be open to the public.
- 11 (2) The drawings shall be witnessed by an independent certified public
12 accountant or by an auditor employed by a certified public accounting firm.
13 No advertising of a North Carolina game shall refer to the role of the
14 independent certified public accountant or auditor employed by a certified
15 public accounting firm.
- 16 (3) Any equipment used in the drawings shall be inspected by the independent
17 certified public accountant or auditor employed by a certified public
18 accounting firm and an employee of the Commission both before and after
19 the drawings.
- 20 (4) Audio and visual records of the drawings and inspections shall be made.

21 If a lottery game uses a drawing among entries for (i) a second chance drawing or (ii) any
22 other promotion conducted by the lottery, where the value of the prize is less than five thousand
23 dollars (\$5,000) in value, the requirements of subdivisions (2) and (3) of this subsection do not
24 apply."

25 **SECTION 4.** Article 8 of Chapter 18C of the General Statutes is amended by
26 adding a new section to read:

27 **"§ 18C-174. Venue for civil actions.**

28 Venue for any civil action under this Chapter, or for any civil action under G.S. 75-1.1 of
29 the General Statutes for violation of this Chapter, shall be in Wake County."

30 **SECTION 5.** G.S. 18C-152(c) reads as rewritten:

31 "(c) For purposes of this subsection, the term "potential contractor" shall include the
32 potential contractor and each of the persons applicable under subsection (b) of this section. At a
33 minimum, the potential contractor required to disclose information for a thorough background
34 investigation under G.S. 18C-151 shall do all of the following:

- 35 (1) Disclose the potential contractor's name, phone number, and address.
- 36 (2) Disclose all the states and jurisdictions in which the potential contractor does
37 business and the nature of the business for each state or jurisdiction.
- 38 (3) Disclose all the states and jurisdictions in which the potential contractor has
39 contracts to supply gambling or gaming goods or services, including
40 goods and services, and the nature of the goods or services involved for each
41 state or jurisdiction.
- 42 (4) Disclose all the states and jurisdictions in which the potential contractor has
43 applied for, has sought renewal of, has received, has been denied, has
44 pending, or has had revoked a ~~lottery~~ lottery, gambling, or gaming license or
45 permit of any kind or had fines or penalties assessed on a license, permit,
46 contract, or operation and the disposition of such in each such state or
47 jurisdiction. If any ~~lottery~~ lottery, gambling, or gaming license, permit,
48 contract has been revoked or has not been renewed or any ~~lottery~~ lottery,
49 gambling, or gaming license, permit, or application has been either denied or
50 is pending and has remained pending for more than six months, all of the

1 facts and circumstances underlying the failure to receive that license shall be
2 disclosed.

3 (5) Disclose the details of any finding or plea, conviction, or adjudication of
4 guilt in a state or federal court of the potential contractor for any felony or
5 any other criminal offense other than a minor traffic violation.

6 (6) Disclose the details of any bankruptcy, insolvency, reorganization, or
7 corporate or individual purchase or takeover of another corporation,
8 including bonded indebtedness, or any pending litigation of the potential
9 contractor.

10 (6a) Disclose as to the potential contractor's demographic data for its employees
11 broken down by the following categories: race, age, sex, and nationality. The
12 Commission may specify age bands and nationality groupings for the
13 disclosure report.

14 (7) If at least ~~twenty five percent (25%)~~ of twenty percent (20%) of the cost of a
15 potential contractor's contract is subcontracted, the potential contractor shall
16 disclose all of the information required by this section for the subcontractor
17 as if the subcontractor were itself a potential contractor.

18 (8) Make any additional disclosures and information the Commission
19 determines to be appropriate for the contract involved."

20 **SECTION 6.** This act becomes effective July 1, 2013. Section 4 of this act
does
21 not affect pending litigation.

Legislative Fiscal Note

BILL NUMBER: House Bill 156 (Second Edition)

SHORT TITLE: Honest Lottery Act.

SPONSOR(S): Representatives Stam, L. Hall, Glazier, and Hardister

FISCAL IMPACT

Yes

No

No Estimate Available

State Impact	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Special Fund Revenues:	<input checked="" type="checkbox"/> 0	<input type="checkbox"/> 0	<input type="checkbox"/> 0	0	0
Special Fund Expenditures:	(550,454)	(590,070)	(604,940)	(617,889)	(630,743)
State Positions:	0.0	0.0	0.0	0.0	0.0
NET STATE IMPACT	\$550,454	\$590,070	\$604,940	\$617,889	\$630,743
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Lottery Commission, University of North Carolina, Department of Public Instruction, Department of Administration					
EFFECTIVE DATE: July 1, 2013					
TECHNICAL CONSIDERATIONS: Yes - See Technical Considerations Section * Expenditures are adjusted based on inflation rates from Moodys.com					
BILL SUMMARY:					

~~Amends G.S. 18C 114 by requiring the North Carolina State Lottery Commission (Commission)~~
to ensure that (1) advertising that displays a total amount of payments to be paid over a period of time must also indicate the present value¹ of the total prize in current dollars, (2) advertising that states probability of winning a prize cannot omit the value of the lowest prize to be won, (3) advertising that states the odds of winning must at least disclose the odds of winning the prize with the largest value, and (4) no advertising or sponsorship can take place in connection with any high school or collegiate sport or sporting event.

¹ Present Value – the current capital value of a future income or outlay or a series of such incomes or outlays. It is computed by the process of discounting at a predetermined rate of interest. Source: *Dictionary.com*

Amends G.S. 18C-115 to require the Lottery Commission to provide an annual report on the allocation of proceeds from lottery funds to the Governor, State Treasurer, and to the General Assembly. The Commission will be required to use established communications channels to inform the public about the proceeds of lottery funds.

Amends G.S. 18C-130, by limiting the types of lottery games that can be used by the Commission to “draw-style” and “instant scratch-off” games unless the General Assembly approves otherwise. Prevents the use of cartoon characters in games using tickets whether or not the primary appeal is to minors. Prohibits the use of unfair information in advertising.

Requires the Commission to post on its website the tabulations of the estimated number of prizes and estimated odds of winning each prize.

Requires the University of North Carolina (UNC) to develop and make available to the Department of Public Instruction professional development and course materials explaining lottery probabilities and other mathematical features. These materials should be developed with an eye towards inclusion in high school civics and mathematics courses. UNC will also complete research on the patterns of lottery participation and lottery ticket sales, including socioeconomic factors of each.

Amends G.S. 18C-132(a) to prohibit lottery advertising or winning number announcements from referencing the role of the required accountant or auditor in North Carolina lottery drawings.

Amends G.S. 18C by adding a new G.S. 18C-174, establishing Wake County as the venue for any civil action under G.S. 18C or for any civil action under G.S. 75C for violation of G.S. 18C.

Amends G.S. 18C-152(c), making technical and clarifying changes. Also requires Commission contractors to disclose demographic data for its employees. If 20% (was, 25%) of the contract is subcontracted, the contractor must also disclose demographics for the subcontractor's employees.

Effective July 1, 2013, with new venue requirements not affecting pending litigation.

Source: Bill Digest

ASSUMPTIONS AND METHODOLOGY:

General Information

The Lottery Commission is an enterprise agency for the State of North Carolina that is fully receipt supported. Annually, the lottery generates revenues from ticket sales and uses the funds to cover:

- Prizes awarded under the program;
- Administrative costs (including advertising/marketing); and,
- Retailer commissions.

Revenues net of operating costs support state-funded programs such as:

- Classroom teachers
- Public school capital
- NC Pre-K program
- UNC need-based financial aid
- Scholarships for Needy Students

Section 1

Section 1 of the bill provides additional regulatory requirements on information to be contained in lottery advertising.

Specifically, the bill requires:

- Advertising that promotes a total payment amount to be distributed over a period of time must state the present value of the prize;
- Advertising that displays the odds of winning a prize must also disclose:
 - The odds of winning the largest available prize; and,
 - The value of the lowest available prize.

The Lottery Commission does not anticipate any costs from incorporating the changes to statistical probability disclaimers provided in lottery advertisements. No fiscal impact is anticipated.

Section 1 also prohibits advertising and sponsorship at athletic events involving high school and collegiate sports. While the Lottery Commission has not engaged in advertising at high school athletic events, the Commission does engage in marketing at collegiate athletic events. Following the creation of the state lottery, the Lottery Commission began marketing at collegiate athletic events. After approximately one year of advertising, the Lottery Commission was no longer permitted to market the lottery at University of North Carolina (UNC) system athletic events.

Beginning in the 2012-13 fiscal year, the Lottery Commission was permitted and resumed marketing at UNC system institutions. For the 2012-13 fiscal year, the Lottery Commission budgeted \$906,000 for university marketing. Table 1 below displays the actual annual contractual cost with each respective university:

Table 1: University Advertising Costs

University	Cost
NC State	\$145,000
NC A&T	\$12,500
Fayetteville State	\$5,000
UNC – Chapel Hill	\$100,000
Appalachian State	\$55,000

University	Cost
Western Carolina	\$3,760
UNC-Charlotte	\$20,000
UNC-Wilmington	\$11,000
Wake Forest	\$103,194
Duke	\$170,000
Total	\$625,454

Since the lottery does not have a long history of advertising at collegiate athletic events, insufficient data is available to isolate the sales impact of these efforts. Therefore, Fiscal Research estimates that prohibiting marketing at high schools and universities will result in \$625,454 in direct, recurring savings for the Lottery Commission. However, these direct savings may not be fully realized due to the possibility that marketing restrictions will reduce ticket sales. Also, the savings may not be fully realized if the Lottery Commission directs the funds that would be spent on collegiate marketing to other marketing strategies.

Section 1.5

Section 1.5 adds a new reporting requirement to the Lottery Commission. The bill states that the Lottery Commission will provide an annual report on the allocation of expenditures of lottery proceeds. The report will be submitted to the Governor, State Treasurer, the General Assembly, and be made publicly available through Lottery Commission communications. No fiscal impact is anticipated.

Section 2

Section 2 of the bill limits the type of games offered by the Lottery Commission to only draw-style and instant scratch-off games. The General Assembly must approve any additional types of lottery games. Section 2 also requires the Lottery Commission to maintain, on its website, the estimated odds of winning each prize at the time the lottery game is offered to the public. No fiscal impact is anticipated.

Section 2 also directs the University of North Carolina to develop course and professional development materials explaining probabilities and other mathematical features of lottery games to include as a component of high school courses in civics and mathematics. Once the course and professional development materials are developed, the University of North Carolina will make the materials available to the Department of Public Instruction and the Office of Non-Public Education in the Department of Administration to be available to schools.

The University of North Carolina estimates the one-time cost for the curriculum component to be \$25,000. This estimate assumes that curriculum would be assembled from information already available and that it would be made available to the Departments of Public Instruction and Administration through posting on a website (rather than producing hard copy materials). This estimate is similar to costs estimated for an older, but similar program. In 1999, the State of Louisiana developed and implemented a similar type of curriculum. Louisiana's Fiscal Research

Division anticipated \$24,000 in one-time costs to develop the curriculum in connection with Harvard University. Implementation costs were also estimated (\$95,000 in annual costs for implementation, \$25,000 for supplies and \$70,000 to implement the program), however the UNC estimate assumes that information would be made available through posting on a website. In addition, several publicly available sources already have lesson plans and instructional components related to probability not required by this bill.

The University of North Carolina is also tasked with commissioning or performing research on patterns of:

- Lottery participation as to frequency, amount spent, family income levels, and other socioeconomic factors; and,
- Lottery ticket sales geographic locations in comparison to the frequency, amount spent, family income levels, and other socioeconomic facts of the neighborhoods.

Research commissioned or performed by the University of North Carolina under this bill will be made available to the Legislative Research Commission.

Texas House Bill 947 was passed in 1993 and requires the Texas Lottery Commission to conduct a demographic study of lottery players every two years to be reported to the commission, the governor, and the legislature. Since at least 2006, the commission has conducted the survey annually by paying a state university to conduct the survey and produce the accompanying report. For the past three years, the survey has been conducted by the Hobby Center for Public Policy at the University of Houston.

The Texas Lottery Commission has paid \$50,000 to the Hobby Center each of the past three years. Expenses are broken down in Table 2:

Table 2: Lottery Survey Expenses

Staff	\$20,600
Surveyor's Wages	\$17,000
Traditional Phone Sample	\$5,200
Cell Phone Sample	\$5,200
Travel	\$2,000
Total Cost	\$50,000

The Texas Lottery Commission indicated that if newer technology were used, instead of the phone sampling they require, the cost to conduct the survey could be reduced.

The University of North Carolina concurs with this estimate of \$50,000 per year for the research requirements under this bill.

As mentioned, the bill requires the materials developed by UNC to be made available to the Department of Public Instruction and Office of Non-Public Education in the Department of Administration. The Department of Public Instruction must provide the resources to local school

districts for use as a component of high school coursework in civics and mathematics. Since these materials will be made available electronically, there are no costs estimated for sharing these resources with local school districts.

Section 3

Section 3 of the bill restricts the reference to the role of the auditor or accountant in any advertising or winning number announcement associated with a North Carolina lottery game. The Lottery Commission indicates that the announcement of the role of the auditor or accountant is used to publicly display compliance with G.S. 18C-132(a)(2) requiring lottery drawings to be witnessed by an independent accountant or auditor. There is no financial benefit received by the Lottery Commission for this announcement. No fiscal impact is anticipated.

Section 4

Section 4 of the bill directs all civil actions for potential violations of Chapter 18C of the General Statutes to occur in Wake County. No fiscal impact is anticipated.

Section 5

Section 5 of the bill makes statutory wording changes and requires additional information to be disclosed by potential contractors performing services for the Lottery Commission. No fiscal impact is anticipated.

SOURCES OF DATA: University of North Carolina, Louisiana Fiscal Research, Texas Lottery Commission, North Carolina Lottery Commission, Department of Public Instruction

TECHNICAL CONSIDERATIONS:

Section 1 of the bill directs the Lottery Commission to display the present value of any lottery prizes that are paid to the winner over time. As the language is currently read, the Lottery Commission would be responsible for determining assumptions to use for present value analysis of the prizes.

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Timothy Dale, Andrea Poole, Brian Matteson

APPROVED BY: Mark Trogdon, Director
Fiscal Research Division

DATE: March 15, 2013



Signed Copy Located in the NCGA Principal Clerk's Offices

Office of the Speaker Pro Tem
North Carolina

House of Representatives

300 N. Salisbury St., Room 612, Raleigh, NC 27603
(919) 733-2962 – Paul.Stam@ncleg.net

*Representative
Paul Stam*



Memorandum

To: Representative Paul Stam

From: Dylan Finch

Date: December 3, 2013

RE: An Examination of Lottery Funding and Sales for Six Counties in North Carolina

Below are two tables illustrating lottery funding and sales for Greene, Nash, Caswell, Cleveland, Wayne, and Craven counties in North Carolina for the 2012-2013 fiscal year. First we analyzed the differences between Greene and Nash counties, as well as how they compare to the State of North Carolina as a whole. Greene and Nash counties received roughly the same amount of funding from the lottery per student (Nash receiving a little less due to incomplete information) despite a significant disparity in lottery sales per capita for the two counties (Nash being much higher). However, the most telling statistic is the percentage of average lottery sales per capita (18 and older) for the two counties. The State average for lottery sales per capita in the State is \$209.39 (calculated by dividing total lottery sales by the 18 and older population for NC). Greene County exceeds the average by 2.04 percent. Nash County, on the other hand, does so by 159.01 percent.

I hypothesize that Greene County has such a small population that a disproportionate share of sales to its residents occur outside the county on their way to and from work. Similarly, I hypothesize that Nash County (on I-95) sales may disproportionately include sales to out of county residents. If I am correct then the true subsidy to the west from the east is probably somewhere between the Nash County and Greene County experience. To test this hypothesis I have included Wayne County and Craven County which show a 35.15 percent and 39.80 percent disparity (respectively).

Greene, Nash, Wayne, and Craven are all in the eastern part of the State. How do they compare to comparable counties in the western half? Caswell and Cleveland counties have similar populations, economic situations, industries, and academic institutions as Greene and Nash counties (respectively). All six counties have roughly the same lottery funding per student and are just below the state-wide average. However, the two western counties differ drastically from Nash and Greene counties in lottery spending per capita. Both Cleveland and Caswell counties are over 20 percentage points below the statewide average.

All six counties receive approximately the same amount of lottery funds per student, but the two eastern counties far surpass the two western counties in lottery sales per capita. The east is subsidizing the education of the children of the west.

Lottery Funding Per Student 2012-2013 FY

	Lottery Funding FY 2012-13 ¹	Number of Students for 2012-13 School Year ²	Lottery Funding Per Student	Percent of Average Funding Per Student
Greene County	\$705,395	3,213	\$219.544	97.24%
Nash County ³	\$3,668,522	18,860	\$194.513	86.16%
Caswell County	\$628,423	2,858	\$219.882	97.39%
Cleveland County ⁴	\$3,440,835	15,651	\$219.848	97.38%
Craven County	\$3,547,334	15,439	\$229.764	101.77%
Wayne County	\$4,451,247	19,529	\$227.930	100.96%
North Carolina	\$337,028,959	1,492,793	\$225.771	100.00%

¹Excludes NC Pre-K, Scholarship, and UNC Need-Based Aid Funding

²Includes Charter School and Non-Charter School Allotted ADM

³Includes Rocky Mount in the School System.

⁴The Lottery Funding and number of students for Pinnacle Classical Academy is not included. The school opened this year in Cleveland County.

Lottery Sales Per Capita 2012-2013 FY

	Lottery Sales FY 2012-13	Population (18 and older) ¹	Lottery Sales Per Capita	Per Capita Return	Percentage of Average Sales Per Capita ³
Greene County	\$3,631,076	16,994	\$213.67	\$0.0047	102.04%
Nash County	\$40,854,136	75,330	\$542.34	\$0.0018	259.01%
Caswell County	\$3,141,859	19,183	\$163.78	\$0.0061	78.22%
Cleveland County	\$12,331,271	76,857	\$160.44	\$0.0062	76.62%
Craven County	\$23,472,908	82,945	\$282.99	\$0.0035	135.15%
Wayne County	\$28,041,868	95,795	\$292.73	\$0.0034	139.80%
North Carolina	1,596,693,058	7,625,417	\$209.39	\$0.0048	100.00%

¹Population is calculated for those who are 18 years of age or older. Population is based on 2012 U.S Census Bureau Data.

³Total Average Sales Per Capita in NC is \$209.39

Memorandum:

From: Brian Miller, Legislative Intern

To: Rep. Paul Stam

Lottery Corruption

February 24, 2016

If a private business is suspected of swindling, dishonesty, or engaged in some form of corruption, the government will step into its role as an *administrator of justice*, and attempt to rectify the issue. But what if it is a **government-run entity** that is corrupt? In the United States, lotteries are run by the state. Often these lotteries are unable or unwilling to properly regulate themselves against a variety of corrupt activities.

Recently in North Carolina, lottery investigators failed to deliver consequences to a convenience store owner in Sanford who scanned large amounts of lottery tickets to find winning tickets. The owner waited to actually pay for the tickets until after he found if he was a winner. Before the investigation came to a close, and despite the owner's blatant violation of the Lottery's "Pay Before You Play" rule, NC Lottery management determined that the owner should in fact receive his prize money (they awarded him \$1 MILLION!). Even if the store owner was unaware of the rule he violated, the NC Lottery allowed him to pull winning tickets out of the market before purchasing them, which ultimately compromised the fairness of the game to other players.

Cases similar to the ones described above are not isolated incidents. In California, there have been several store owners who have been the holders of around 90% of the winning tickets purchased from their stores.²⁴ Investigators are highly suspicious of this, as these store owners would have had to personally spend *millions* on tickets to get these sorts of results by chance.²⁵

²⁴ See <http://losangeles.cbslocal.com/2014/10/30/cbs-2-investigates-lottery-retailers-cashing-in-at-surprising-rates/>

²⁵ One owner would've had to spend about \$2 million on tickets in order to get his reported \$304,000 in prizes; and another owner would've had to spend about \$600,000 in order to bring in their \$59,000 in prizes.

Last year, Eddie Tipton, the former information security director for the Multi-State Lottery Association, was found guilty on two counts of fraud. He had installed a self-deleting computer program on a lottery-operating computer so he could orchestrate a winning ticket worth \$14.3 million in a December 2010 drawing.²⁶ This was likely not the only jackpot Tipton rigged, as investigators suspect he fixed a Colorado jackpot in 2005 and a Wisconsin jackpot in 2007.²⁷

This past year the executive director of the Multi-State Lottery Association, Charles Strutt, stepped down as the investigation prompted by Eddie Tipton's crime expanded.²⁸ This suggests that the extent of the corruption may be even greater than the rigging Tipton helped orchestrate.

The often-used biblical phrase "the love of money is the root of all sorts of evil" cautions one to tread carefully when operating an industry so susceptible to money-based corruption. The NC Education Lottery cannot be trusted to regulate itself when there is evidence to suggest that corruption exists. As legislators, we must fulfill our responsibility to citizens by enacting common-sense regulations and increasing thorough oversight over the NC Education Lottery.

²⁶ See <http://www.desmoinesregister.com/story/news/crime-and-courts/2015/07/20/hot-lotto-verdict/30411901/>

²⁷ See <https://www.washingtonpost.com/news/post-nation/wp/2016/01/09/the-company-that-runs-powerball-had-a-16-5-million-jackpot-rigged-by-a-former-employee/>

²⁸ <http://www.nydailynews.com/news/national/powerball-exec-quits-nationwide-scandal-grows-article-1.2475227>

Memorandum:

From: Brian Miller, Legislative Intern

To: Rep. Paul Stam

NC Lottery: A Case of Subtle but Sure Injustice

February 24, 2016

Imagine one evening after work you're in line at a convenience store buying a snack. The man ahead of you in line gets to the register and asks for 20 lottery tickets for the Jackpot drawing the next night. After the clerk informs him his total is \$40, the man says, "Oh, just take note of what I owe and I'll come pay you back at the end of the week once I've found out if any of my tickets are winners!" To your surprise, the clerk agrees and the man leaves. Naturally, this would strike you as incredibly unfair, even if the man did come settle his debt at the end of the week; not only is this man able to find out if he has won anything before paying, but he took twenty possible winning tickets out of the market that could have gone to someone who actually put up the cash to rightfully own them. Shockingly, the NC Education Lottery has allowed a similar situation to happen.

The NC Lottery prohibits tickets being purchased on credit. Tickets may not be purchased on credit and "acceptable forms of payment include cash, check, debit card, and gift card at the retailer's discretion."²⁹

However, in 2014, a convenience store owner in Sanford, NC won \$1,000,000 from a scratch-off ticket from his own store. There is no rule against retailers buying tickets for themselves. The problem arises in how this store owner got the ticket. It was confirmed that the store owner scanned the barcodes of a collection of tickets, without actually playing the tickets, to see which ones were winners and then settled his debt to the store at the end of each week. This was in blatant violation of the spirit of the Lottery's "Pay Before You Play" policy.

The NC Lottery investigated the situation and ultimately decided to award the prize money to the store owner and *never delivered any consequences*. The main reason for this was that the store owner apparently "had never heard of" their policy

²⁹ <http://www.nc-educationlottery.org/faq.aspx>

against such actions. This order came in the middle of the investigation, when all involved in the investigation had not yet come to a decision on how to proceed.

The Lottery's decision to award all the prize money and not deliver any negative consequences to the store owner amounts to a failure to enforce both its "Pay Before You Play" policy and their prohibition on purchasing tickets on credit. Not only is it unjust that certain players have been allowed to "buy up" winning tickets without actually buying them, but it appears the Lottery may have an issue with appropriately self-regulating itself. There is a need for increased oversight by the state to ensure the Lottery operates in a way maximally beneficial and fair towards the people of North Carolina.

See Attached Report

Investigation NCEL: IV-104677-ADMINISTRATIVE-14-0003**Restricted Case?**

No

Investigation ID

IV-104677-ADMINISTRATIVE-14-0003

All Fields in Red are Required and MUST be filled in before Submitting for Approval.

* Date of Report	10/10/2014	* Category	Administrative
Event Weekday	Friday	* Sub Category	Retailer Investigation
* Time of Report	10:06:00 AM	Type	Retailer Claimant Inquiry
Date of Occurrence	10/9/2014	* Incident Source	Prize Validation
Time of Occurrence	9:00:00 AM	Security Representative	Gideon LeConey
		Title	
		Assigned to	Jason Livingston
		Assigned to Date (KPI):	10/13/2014
		Assigned to Time (KPI):	9:00:00 AM
		Date of First Contact (KPI):	10/13/2014
		Time of First Contact (KPI):	10:45:00 AM

Retailer Information

* Location	104677 - Value Mart
Region	RALEIGH
Status	Active
Sales Representative	Gwendolyn Pickle
RSS Representative	Jason Gallo
Contact	Shailesh M. Patel
Loc address 1	307 Carthage Street
Loc address 2	
Loc address 3	
Loc address 4	
Loc city	Sanford
Loc county	LEE
Loc state	NC
Loc zip	27330
Retailer Phone	9197761448
Mailing Address	307 Carthage Street
Mailing City	Sanford
State & Zip	NC

Contact Information

Nearby locations	Click to View
-------------------------	-------------------------------

Reporting/Person Name

Shaileshkumar Patel (Retail Owner)



No Picture Available

Last Name [?]	Patel
First Name	Shaileshkumar
Address 1	[REDACTED]
City	Sanford
State	NC
Zip	27330
Phone Cell	[REDACTED]

State ID North Carolina
 Employee #/ Owner # Owner

Investigation Detail

Were police notified?	No	Did owner receive sanctions?	No
Were there Witnesses?	No	Interviewed Flag	No
Attachments for this report?	Yes	Captured on CCTV?	Yes
Instant tickets involved?	Yes	Additional Subject, Suspect?	No
Online tickets involved?	No	Additional Loss to NCEL?	No
		Were court charges filed as part of this Investigation	

Initial Narrative: This is brief synopsis of initial incident reported. **Supplemental Narrative:** For all additional information please create a supplemental narrative.

Initial Narrative (Created On: 10/10/2014 10:39:55 AM)**Created On**

- 10/10/2014 10:39:55 AM

On 10/10/2014 at 10:00am Security Operations Specialist (SOS) LeConey received a "Retailer Claimant" case from Prize Validation regarding player, Shaileshkumar Patel, owner of Value Mart (retailer number 104677). Patel submitted what appeared to be a non-defaced winning ticket for \$1,000,000 "406-\$1,000,000 Jackpot" (406-081534-004). SOS LeConey scanned the ticket, a Winner Claim Form, Security Statement, and a copy of Patel's NC driver's license and Social Security card and entered them into the "Attachments" section of this report.

SOS LeConey printed a page from Enterprise Series (ES) showing Shaileshkumar Patel's previous 14 claims and added it to the case file. A check of ES shows the pack (406-081534) was activated by Value Mart on 10/5/2014 at 8:34pm. A check of validation activity for other tickets in the pack showed no results.

Supplemental Narrative (Created On: 10/22/2014 9:46:37 AM)**Created On**

- 10/22/2014 9:46:37 AM

On Monday 10/06/2014, Investigator (Inv.) Jason Livingston received an email from Investigations Manager (IM) Tim White, requesting him to respond to Value Mart (Retailer Number 104677) in reference to the owner, Shaileshkumar Patel winning a \$1,000,000 prize from game 406-\$1,000,000 Jackpot, ticket 406-081534-004. Inv. Livingston made contact with Patel and scheduled an appointment with Patel for Tuesday 10/07/2014. Inv. Livingston did make a site visit to Value Mart (Retailer Number 104677) on that date and spoke to Patel about the circumstances of his purchasing the ticket. Patel explained that he had won several other big prizes in the past and asked for the presence of former Inv. Ronnie Broadwell. Inv. Livingston told Patel that Inv. Broadwell was no longer employed with the NCEL and that he would be handling the investigation. Inv. Livingston further inquired about the video surveillance for the purchase date, 10/05/2014 and Patel agreed to show him the video after he explained that he called the NCEL because he was familiar with the process involved, referring to him being a retail owner and he wanted an Investigator to view the video before it was erased to prove he did not steal the ticket from a customer. Inv. Livingston reviewed the "Pay Before You Play" policy with Patel and he explained that he had never heard of such a policy in his previous claims. Inv. Livingston proceeded in viewing the video surveillance from 10/05/2014, which is stored on the Z: drive under Investigator Video, titled Value Mart 104677. The video reflected Patel playing numerous \$1,000,000 Jackpot game 406 tickets and not just playing the game, but rather just scratching the bar code and scanning them on the terminal one after the other during the time viewed, including the submitted winning ticket. Inv. Livingston questioned Patel as to his method of scratching and scanning the ticket. Patel explained he does this daily and he just settles his debt to the store at the end of each week for any lottery played. Inv. Livingston again discussed the policy with Patel and he was adamant he didn't know. Inv. Livingston, while at the store, notified IM White of his findings. IM White instructed Inv. Livingston to hold the payment until he saw the video and discussed the scenario with General Counsel (GC) Quan Kirk and Director of Security (DOS) Moe McKnight. Inv. Livingston was later notified on 10/13/2014 by IM White that he was setting up a meeting with the Retailer Review Committee at the request of GC Kirk to seek their approval of the actions of Patel. IM White also notified Inv. Livingston that Patel had not renewed his Retailer Contract since 2011 and the new "Pay Before You Pay" policy was implemented approximately two (2) years ago, therefore Patel never had the new hyperlink to direct him to the new policy. Based on the facts of this case, Inv. Livingston has been instructed to wait on the outcome of the Retailer Review Committee meeting decision and will base the payment approval or denial on further information provided by IM White.

On 10/15/2014, the retailer review committee met to discuss the information revealed in the investigation above. In attendance for this meeting was Director of Security (DoS) Moe McKnight, Director of Administration (DoA) Stacy Askew, Deputy Executive Director of Sales (DED) Terri Avery, Director of Sales East (DoSE) Daniel Rose, Director of Sales Development (DoSD) Walter Ingram, Deputy Executive Director of Finance, Administration, and Security (DED) Bill Jourdain, General Counsel (GC) Quan Kirk, Retail Contracts Manager (RCM) Veronica Pennniger, Investigations Manager (IM) Tim White, Security Administrative Assistant (SAA) Jennifer Rodriguez. No decision on payment was made at this meeting. Due to the possible media and possible public perception implications it was decided that this information would be shared with Executive Director (ED) Alice Garland for further discussion.

On 10/22/2014, DoS McKnight notified IM White that ED Garland advised to pay the player/owner. IM White informed Inv. Livingston to authorize payment. IM White returned to the folder to Prize Validation.

8/19/2015

Based on the aforementioned information, payment is approved. IM White also had advised Inv. Livingston he had completed the finance check and Patel did not owe any money to the NCEL. Inv. Livingston has completed the payment approval in the Retailer Management System. This case is closed.

Instant Ticket Information

Game Number	Pack Number	Ticket or Range of Tickets	Pack Status	Blocked in ES	Confirmed Date	Confirmed Time	Administrative Fee	Previous Missing Ticket Report Date
406 - \$1,000,000 Jackpot	081534	004		No				

Was reporting person notified of administrative fee associated with missing/stolen tickets?

N/A

Validation Retailer Information

No

Attachments (2)

Evidence Number	Description of items	File Name	Attached BY	Date attached	Created Time	Disposition	Alert flag
EV1000025491 - IC10000445345	Description: ticket and documents	Shaileshkumar Patel.pdf	GLECONEY	10/10/2014	10:21:56 AM	0	0
EV1000025512 - IC10000445345	Description: Transaction terminal history	TMIR Custom Filter 104677 - 10-1-14 thru 10-6-14.xlsx	TWHITE	10/14/2014	11:18:31 AM	0	0

Letter Record (0)**Task (0 Pending)****Additional Information**

Ticket Reconstruct submitted on: n/a
 Ticket Reconstruct returned on: n/a
 Retailer Management System updated: Yes
 PV Folder Returned by: IM T. White
 PV Folder returned to: PVM A. Jacobs
 PV Folder returned date: 10/22/2014
 PV Folder returned time: 7:50:00 AM
 * Investigation Flags PRIZE PAID

Management Summary Information (Created On: 10/13/2014 7:32:59 AM)**Created On**

- 10/13/2014 7:32:59 AM

Retailer claimant inquiry involving Shaileshkumar Patel, owner of Value Mart (retailer number 104677).

Investigation Status

Status Closed Approved By GHARRINGTON
 Disposition Approved Date 10/22/2014
 Closed By RPEKRUL
 Closed Date 10/31/2014
 Related incident
 Related investigation

Key Performance Indicators

Positive Performance Review Issued

N

8/20/2015

Key Performance Indicators

E1	E2	E3	E4	E5	E6	E7	E8	E9	E10	E11	E12	E13	E14
0	0	0	0	0	0	0	0	0	0	0	0	0	0

Key Performance Indicators 2

E15	E16	E17	E18	E19	E20	E21	E22	E23	E24	E25	E26	E27	E28
0	0	0	0	0	0	0	0	0	0	0	0	0	0

E1 - Player not contacted within 24hrs, E2 - Retailer not contacted within 24 hrs, E3 - Missing "Reporting person", E4 - Missing "Suspect information", E5 - Missing "Police report", E6 - Missing "Supplemental Narrative", E7 - Missing "Attachments", E8 - Missing "Ticket Information", E9 - Missing "Interview", E10 - Missing "Written Statement", E11 - Missing "Witness Information", E12 - Missing "Evidence", E13 - Missing "Evidence Inventory Report", E14 - Failure to request "Ticket reconstruct", E15 - No Retailer Security Review, E16 - Failure to Customer Service of FST Request, E17 - Failure to Check Debt Setoff with Finance, E18 - Spelling and spacing, E19 - Grammatical Subject/Verb Tense, E20 - Incorrect Formatting of Titles and Abbreviations, E21 - Narrative clarity, E22 - Missing "Restitution Information", E23 - Missing "Victim Impact Statement", E24 - Missing "Court Information", E25 - Missing "Summary Report", E26 - Missing "Case Report", E27 - Missing "Video", E28 - Failure to complete "RMS".

Key Performance Indicators 3

Customer Service	Communication	Knowledge and Skills	Growth and Development	Efficiency and Effectiveness	Organization / Team Support
2	2	2	2	2	2

KPI Notes**Created On**

No record found

8/19/2015


\$10

NORTH CAROLINA EDUCATION LOTTERY
www.nc-educationlottery.org

OVER 211,300 PRIZES FROM \$50 TO \$1,000!

**\$1,000,000
JACKPOT**

6 TOP PRIZES OF \$1,000,000!*

WINNING NUMBERS					
19	7	14	27	40	34
AMB	PRN	PRN	ONE	THOU	TOP
YOUR NUMBERS					
 30	38	16	26		
WIN	THOU	THOU	THOU		
\$1MIL	\$25	\$25	\$1,000	\$5,000	
ONE	THOU	THOU	ONE	THOU	
18	23	35	1	31	
THOU	THOU	THOU	ONE	THOU	
\$5,000	\$500	\$100,000	\$100	\$50	
THOU	THOU	ONE	THOU	THOU	
8	28	22	13	4	
THOU	THOU	THOU	THOU	THOU	
\$1,000	\$20,000	\$20,000	\$200	\$20	
ONE	THOU	THOU	THOU	THOU	

16689692-2682



Match any of YOUR NUMBERS to any of the WINNING NUMBERS, win PRIZE shown for that number. Reveal a "5K" symbol, win the PRIZE shown instantly. Reveal a "5K" symbol, win 5 TIMES the PRIZE shown for that symbol. Reveal a "10X" symbol, win 10 TIMES the PRIZE shown for that symbol. Reveal a "JACKPOT" symbol, win all 15 PRIZES shown!

*These prizes will be paid in installments over 20 years.

004

A1

**\$1,000,000
JACKPOT**



\$10

**YOU MUST BE 18
YEARS OF AGE TO PLAY.**

- Ticket price is \$10. Ticket is a bearer instrument until signed.
- In accordance with NCEL prize payment policy, all instant game prizes must be claimed within 90 calendar days of the announced end of game. Tickets must be received by the NCEL within 90 calendar days of the announced end of game. Postmarks shall not constitute satisfaction of the 90 day requirement and the risk of mailing tickets remains with the player.
- Only original tickets will be accepted to claim any prize. Prizes under \$600 may be claimed at any NCEL retailer, NCEL headquarters, or any NCEL office. Prizes between \$600 and \$99,999.99 must be claimed at NCEL headquarters, any NCEL office, or by mail. Prizes of \$100,000 or more must be claimed at NCEL headquarters. An NCEL Winner Claim Form, proper identification (ID), and the original ticket must be provided for all claims \$600 and over. Proper forms of ID must verify: name, signature, age and social security number. If mailing, send required documentation to: NCEL, P.O. Box 41606, Raleigh, NC 27629-1606. The NCEL is not responsible for lost or misdirected mail.
- **The number of prizes is established at the time of printing and will change as prizes are won.**
- All tickets, ticket shares, transactions, and players purchasing tickets are subject to the Lottery Act, NCEL rules and regulations and applicable laws (available via NCEL website, calling Customer Service or any NCEL Office). Tickets are void if they fail to meet requirements of game rules or are irregular in any manner. Liability for void ticket is limited to replacement of ticket or refund of retail sales price.

*This prize will be paid in installments over 20 years. \$1,000,000 top prizes are Annuity Prizes payable over 20 years. An annuity winner may elect a discounted lump sum Cash Option in lieu of the Annuity Prize, which is established at \$600,000 before applicable taxes and other State withholdings. Cash Option election is subject to the NCEL Instant Ticket Game Rules available via the NCEL's website or Customer Service Hotline.

APPROXIMATE OVERALL ODDS INCLUDING BREAK-EVEN PRIZES ARE 1:3.36

APPROXIMATE ODDS TO WIN A TOP PRIZE ARE 1:1,140,000

For game information, please visit our website at www.nc-educationlottery.org
or call NCEL Customer Service at 1-877-962-7529.

PLEASE PLAY RESPONSIBLY

If you or anyone you know has a gambling problem call 1-877-718-5543.

Shailesh K. Motikhai Patel
(NAME (PLEASE PRINT))
[REDACTED]
STREET ADDRESS
Sumford N.C. 27330
CITY STATE ZIP
[REDACTED]
DAY TELEPHONE
[REDACTED]
SIGNATURE [Signature]
408-425180-904



FairSafe®





NORTH CAROLINA EDUCATION LOTTERY WINNER CLAIM FORM

STAPLE WINNING TICKET HERE

PLEASE DO NOT STAPLE
THROUGH ANY NUMBERS OR
PLAY AREA ON THE TICKET!!

Please see the back of this form for detailed instructions.

For more information, visit our website at www.nc-educationlottery.org

CLAIMANT - PLEASE PRINT WHEN COMPLETING THIS SECTION

1. CLAIMANT TYPE (CHECK ONE) ☒ INDIVIDUAL ☐ GROUP WINNERS - Complete Affidavit of Multiple Ownership (Substitute for IRS Form 5754)

2. U.S. SOCIAL SECURITY NUMBER OR TAX IDENTIFICATION NUMBER [REDACTED]

3. FULL NAME ☒ MR. ☐ MRS./MS. FIRST Shaileshkumar M.I. M LAST Datel

4. ADDRESS [REDACTED]

5. CITY Sanford 6. STATE NC 7. ZIP CODE 27330

8. COUNTY Lee 9. DATE OF BIRTH MM-DD-YYYY [REDACTED]

10. U.S. CITIZEN/U.S. RESIDENT ALIEN (FOR TAX PURPOSES ONLY) (CIRCLE ONE)		<input checked="" type="radio"/> YES <input type="radio"/> NO	IF NO, state COUNTRY of Residence	Note: See Claim Form instruction # 4 on back for documentation requirements which must be provided to process claim.
11. AREA CODE	PHONE #	[REDACTED]	12. DO YOU HAVE AN OWNERSHIP INTEREST IN A STORE THAT SELLS LOTTERY? (CIRCLE ONE)	<input checked="" type="radio"/> YES <input type="radio"/> NO
13. DO YOU WORK FOR A STORE THAT SELLS LOTTERY? (CIRCLE ONE)	<input checked="" type="radio"/> YES <input type="radio"/> NO	14. DO YOU HAVE ANY RELATIONSHIP TO ANYONE WHO HAS AN OWNERSHIP INTEREST IN A RETAIL STORE THAT SELLS LOTTERY? (IF YES, SPECIFY RELATIONSHIP: <u>wife</u>) (CIRCLE ONE)	<input checked="" type="radio"/> YES <input type="radio"/> NO	

15. If "yes" to #12, #13 or #14 provide: Retailer#: 104677 Store Name: Value Mart #2 City: Sanford, NC

- I understand that NCEL, its retailers and advertising agencies, and the news media may use my name, likeness, and statements for reproduction as it relates to winner awareness for purposes of advertising, promotion, display, or exhibition. Further, I understand that I may be asked to participate in interviews with NCEL public relations personnel.
- If I am claiming as an entity, other than as an individual, I certify that I am the legal representative authorized to sign any and all documents required by the NCEL to process this claim, and to bind such entity to the terms of this Claim Form and all NCEL rules and procedures.
- Under penalty of perjury, I certify that the taxpayer identification number shown on this form correctly identifies the recipient of this payment, I am a U.S. citizen or legal U.S. resident and I am not subject to backup withholdings (if applicable). The Internal Revenue Service does not require my consent to any provision of this document other than the certifications required to avoid backup withholding.

16. CLAIMANT SIGNATURE [Signature] DATE 10/09/14

FOR LOTTERY USE ONLY

17. REGIONAL OFFICE NO. 17 18. RECEIVED BY (Signature) [Signature] # Of Tickets 1 19. DATE 10-9-14

IF MORE THAN ONE TICKET IS PRESENTED LEAVE 20 THROUGH 22 BLANK AND WRITE THE # OF TICKETS IN THE SPACE ABOVE

20. INSTANT TICKET NUMBER (on back of ticket above the bar code) 4016 081534 004

21. INSTANT TICKET VALIDATION NUMBER (covered number on the lower play area) 1166896922682

22. ON-LINE TICKET SERIAL NUMBER (on the bottom front of the on-line ticket) [REDACTED] RETAILER # [REDACTED]

GREEN - LOTTERY YELLOW - CLAIMANT

Created _____

Rev 9/4/13

RECEIVED

OCT 09 2014

N.C. Education Lottery
Prize Validation

Approved _____

Security Department Big Winner Questionnaire

Name: SHAJESHK PATEL Home Town: SANFORD
Game Played: \$1,000,000 Jackpot Amount Won: \$ 4,000,000

1. Are you the owner of this ticket? Or claiming the ticket for someone else?

Owner of This Ticket

2. Where did you purchase the ticket?

His store / VALUE MART.

3. When did you purchase the ticket?

OCT. 5th / Sunday

4. Do you purchase tickets at this location regularly?

YES

5. Did you purchase other tickets when you purchased this ticket?

YES, A few INSTANTS

6. If the ticket is an online ticket: How did you choose the numbers?

☐ Quick Pick

☐ Choose numbers

N/A

7. Do you own or work at a lottery retailer? ☒ Yes ☐ No

If "yes" which retailer: VALUE MART 104677


☒ No unusual behavior observed


☐ Prize Validation found no Debt Setoff


Security Department Member: Tim White



STATE OF NORTH CAROLINA **DMV**

W. Roy L. Davis, Jr.
Commissioner of Motor Vehicles


DRIVER LICENSE 
Dup



SHAILESHK MOTIBHAI PATEL

SANFORD NC 27330-7424

class: **C** endors: **None** restr: 
issued: **08-20-2008** expires: **07-13-2015**
sex: **M** ht: **5-03** eyes: **BRO** hair: **BLK** race:
birthdate:  *m Patel*

SOCIAL SECURITY



THIS NUMBER HAS BEEN ESTABLISHED FOR
SHAILESHKUMAR MOTIBHAI PATEL

m Patel
SIGNATURE

DEPARTMENT OF HEALTH & HUMAN SERVICES
U.S. SOCIAL SECURITY ADMINISTRATION
U.S.A. - SEEDING

